

# Nation's Business<sup>®</sup>

The Small Business Adviser

**A Source Of Funds  
In Search Of Work**

**New Computing Tools  
To Enhance Mobility**

**Costly Risks Of  
Workers' Comp**

## The BIG Switch

*Electric-power deregulation will let small-business owners choose among competing suppliers, but savings aren't guaranteed.*



Published by  
U.S. Chamber of Commerce  
SEPTEMBER 1997 - \$2.50

*New Hampshire florist Lorrie Carey is among the entrepreneurs experiencing the change from a tightly regulated market to one with fewer controls.*

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Colin Probert  
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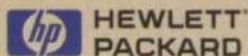
September 22, 1997

Mr. Probert,

I quit.

Sincerely,

*Bruce Patterson*  
Bruce Patterson



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B



#### THE FOUR-RINGED TREE #7329

Several decades ago, sections of this tree were grafted back onto itself to produce multiple loops. Despite their age, the loops have retained good strength and symmetry while the tree continues to grow.

#### THE COMPOUND SQUARE #6219

One of the more striking shapes in the collection, this form is created from, appropriately, a boxwood elder. Elders and sycamores are particular favorites for this type of work, being supple enough to tolerate extreme variations in growth. This single tree stands approximately 25 feet tall.

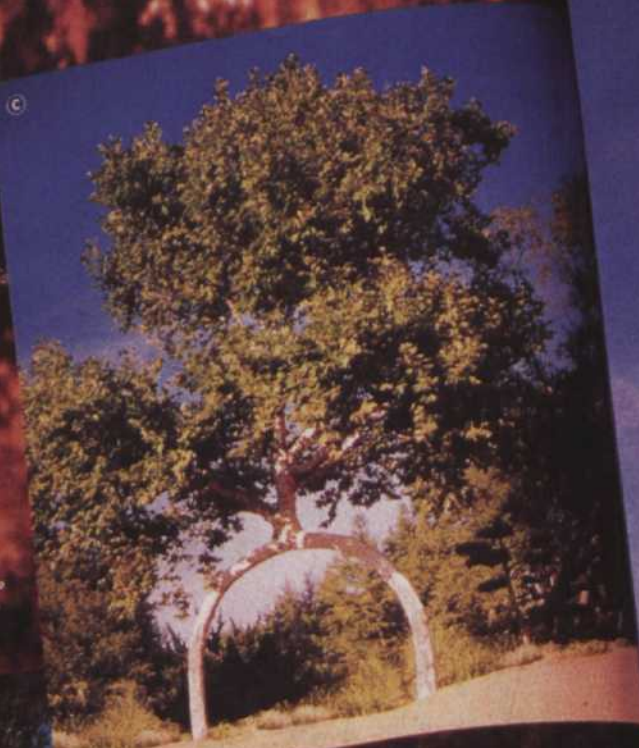
D



#### THE FOUR-LEGGED GIANT #2178

One of the original trees in the collection, this tree sculpture is created from four separate sycamores, each equal in thickness and height. Using a secret technique, the trees were carefully grafted together more than 30 years ago to form a pergola-like living structure.

C



#### THE ARCHWAY TREE #2836

A simple yet intriguing design created from two grafted sycamores. Careful pruning helps achieve a form that is perfect in both design and balance. This tree now serves as a dramatic entrance point to this scenic walkway.

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PHOTO: RICHARD HOWARD

Potato-chip maker William "Buddy" Croft Jr. is taking part in New Hampshire's pilot program of electricity deregulation, which is spreading nationwide. Cover Story, Page 18.



PHOTO: T. MICHAEL KEZA

Printing-firm owner Katherine Gekker: Risk in an OSHA proposal. Regulation, Page 28.

## COVER STORY

### 18 The Big Switch

Some small-business owners are beginning to see the impact of electricity deregulation, and others would be well-advised to become familiar with what's at stake.

- 20—Covering The "Stranded" Costs
- 21—Coping Tips For Small Firms
- 22—The States Take The Lead

## REGULATION

### 28 A Rule Mandating Safety And Health?

Critics of a proposed OSHA standard on safety-and-health programs say it would hurt businesses more than it would help.

## FINANCE

### 30 Small Business Financial Adviser

The home-office tax deduction; résumés' important points of reference; travel insurance for personal items; the pluses and minuses of U.S. Savings Bonds.

### 37 Funds In Search Of Work

Finding Capital: Private investment groups may be the answer for established, profitable firms that seek expansion capital.

- 38—Putting Together A Deal

## INSURANCE

### 40 Risks Of Workers' Comp

Insurers' misclassification of workers can inflate a company's premiums, so owners should pay close attention to the details.

## MARKETING

### 46 A Direct Route To Customers

Many firms now choose to distribute their products through representatives who sell one-on-one or through home parties.

### 52 Targeting With Direct Mail

These tips can help your company reach out to prospective customers.

## ECONOMIC DEVELOPMENT

### 53 Closed Bases, Open Doors

Scores of closed military installations nationwide are offering business people affordable room to grow their enterprises.

- 54—Base-Availability Information

## MANAGING

### 57 Building A Company Culture

A set of management values can bring out the best in your employees—and maybe even save your firm's life.

- 59—Study Sheds Light On A Missing Link

## SPECIAL REPORT ON TECHNOLOGY

### 61 Making A Move To Portability

To serve mobile entrepreneurs, manufacturers are producing innovative, powerful, and attractively priced tools for computing, organizing, and communicating.

## FAMILY BUSINESS

### 70 Retiring With Class

The best way to go; facing up to a loved one's compulsive behavior; a case study on fairness to heirs.

## TRAVEL

### 73 Quiet Havens At The Airport

Airline clubs offer a place apart from the madding crowd—but not far from the gate.

## POLL RESULTS

### 68 Changes For Growth

Key federal policies must be reformed to promote economic growth, said most respondents to the July Where I Stand.

## WHERE I STAND

### 69 On Highway Funds

Express your views on issues centered on federal motor-vehicle fuel taxes and other user fees earmarked for highway and bridge construction and repair.

# Editor's Note



PHOTO: IREN TOUCHTON

**Pool-management entrepreneur Gene Kijowski puts safety first. Making It, Page 75.**

## DEPARTMENTS

- 6 Letters**
- 8 Entrepreneur's Notebook**
- 10 Dateline: Washington**
- 14 Managing Your Small Business**
- 75 Making It**
- 82 Free-Spirited Enterprise**
- 83 Classified Ads**
- 86 Direct Line**
- 88 Editorial**

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## Choices, Choices

When I first heard about electricity deregulation, I thought, "Oh, no, one more simple aspect of my life will become more complex." Now, I have one electric utility, one bill, no choices, no decisions. The more options available when the market becomes competitive, the more time that may have to be spent choosing.

The thought reminded me of a recent experience in buying fishing equipment for my son to take to Boy Scout camp.

This shopping trip should be quick, I reasoned before seeing the wide selection of rods and reels at a sporting-goods store. Taken aback, I decided I'd start with the simple items—hooks, floats, sinkers—only to be enlightened again about the multitude of choices.

Ultimately, I returned home a happy customer. I got what I needed at a lower cost than anticipated even though the 30 minutes I expected to spend turned into an hour.

Economics 101 teaches us that competition affects price. But will small companies benefit from that axiom, as I did with the fishing gear; when they buy electricity in a competitive market?

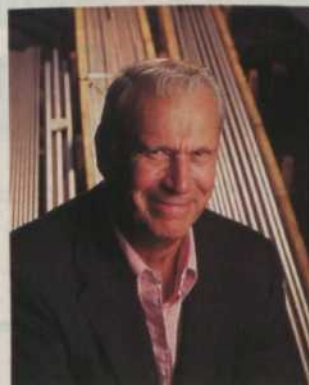


PHOTO: STODD BUCHANAN

See our cover story, "The Big Switch," written by Senior Editor Jim Worsham and beginning on Page 18, for a preview of what's to come for small firms as deregulation takes hold.

Don't overlook the cost-related article by Senior Associate Editor Steve Blakely on workers' comp. It tells how machine-shop owner George Bartusek Sr., left, recouped \$75,000 in workers' comp premiums by convincing his insurer that his employees had been misclassified. For business owners who don't keep close tabs on the details of workers' comp, however, classification mistakes can be extremely costly. See this revealing story on Page 40.

*Mary Y. McElveen*

Mary Y. McElveen  
Editor



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# Letters

## Taxes Lie In Ambush For Retirement Funds



Your July cover story, "Pension Power," was practical and timely. But it failed to cover one of the biggest risks inherent in qualified retirement plans.

Simply put, many of the accounts in retirement plans won't be nearly what was expected.

I have worked with these plans since their inception in the late 1950s, and they have performed wonderfully for most entrepreneurs. But tax laws have changed over the years, and taxes on some retirement funds are the highest in the country—a multilayered combination of estate, excise, and income taxes.

The awful truth is that when small-business owners die, their heirs may get as little as 25 percent of the original nest egg. Already burdened with

the trials of handing over their businesses to their children, small-business owners must also face the problem of transferring taxes to them.

The good news is that there are solutions: charitable trusts, life insurance, and trusts for heirs, for example. I have seen these exit strategies help high-bracket taxpayers pass their retirement funds almost tax-free to their children and grandchildren.

There are two systems of taxation in this country—one for the informed, another for the uninformed. People should look into ways to protect their nest eggs from estate taxes. Doing nothing simply leaves everything up to the government. Becoming one of the informed can help fulfill the fundamental human urge to leave something behind for future generations.

Billy P. Mixon

Chartered Life Underwriter  
Atlanta

## Dual Contributions



Your cover story on retirement plans brought a question to mind: Can a full-time employee who is covered by

and contributes to his employer's qualified retirement plan (a 401k, for example) also make tax-deferred contributions to a Keogh or SEP-IRA through a separate, self-employed business owned by the employee?

H. Scott Ellis

Mountain Lakes, N.J.

[Editor's Note: The answer is yes, according to a spokesman for the Internal Revenue Service. If an employee who is also a self-employed business owner contributes to a 401(k) plan offered by his or her full-time employer, the individual also can set aside tax-deferred money in a separate defined-contribution retirement plan through the self-employed business.]

Be aware, however, that the amount that can be contributed to the separate retirement plan will be determined by the amount earned from the self-employed business.]



## More Help On Personnel



"A Helping Hand On Personnel" [August] and "Seeking Help On Human Resources" [Direct Line, August] gave some great advice on how companies can meet the challenges of managing a growing work force. There are a number of highly trained and well-

versed consultants who can help business owners navigate the myriad of personnel issues, including benefit plans and employment laws.

However, one solution the articles didn't mention offers more than advice: It is a business service that primarily involves assuming the legal and administrative responsibilities of an employer for payroll, benefits, and other human-resource functions on behalf of all or most of another firm's work force.


Unlike temporary-help services, professional employer organizations (PEOs), which previously were known as employee-leasing companies, are not "labor suppliers" in the sense that they do not recruit, screen, and train workers or assume legal responsibility for the work performed.

PEO arrangements appeal primarily to small and midsize employers that find it cost-effective to contract out their human-resource functions rather than hire an in-house staff.

PEOs and their clients generally enter into written agreements in which the allocation of employer responsibilities between the PEO and the client is explicitly stated.

**Bruce Steinberg**  
Director of Research and  
Public Relations  
National Association of Temporary  
and Staffing Services  
Alexandria, Va.

## Obsolete Phone Data Does A Number On A Business

 "Dialing Up Savings On The Internet" [August] really hit home with me.


The article was correct in stating that some of the long-distance providers are knowingly providing incorrect directory information. I recently discovered that a major long-distance provider was giving out an obsolete phone number and address for my business to all inquiries from outside Connecticut.



The number being given out was an unused one that responded to callers with, "This number is no longer in service." Numerous customers thought that we were out of business.

This went on for about three months before the problem was discovered. The amazing thing was that upon my notifying the long-distance provider and requesting that it correct the problem, the company was not at all in a hurry to do so, and it was only after many phone calls over a 10-day period that I was finally successful. Even a letter to the president of the company remains unanswered.

The upshot of the entire episode is that the long-distance provider continues to knowingly supply incorrect data, but it does not seem to care as long as it captures all the information-inquiry

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**Gene Farber**  
Parc Monceau Country French  
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Westport, Conn.

## Correcting The Record On Program's Sponsors

 Thank you for your coverage of the Helzberg Entrepreneurial Mentoring Program in "Taking Care Of Local Business" [July].

I would like to set the record straight,

however, regarding the Covey Leadership Program, in which chosen entrepreneurs attended a two-day session with self-help motivator Stephen Covey. The program was sponsored by Martha and John Humphreys of Kansas City, Mo., who came forward proactively to suggest the program and volunteered full sponsorship.

This was one in a continuous series of miracles that seemed to fire the Helzberg Entrepreneurial Mentoring Program.

**Barnett Helzberg Jr.**  
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Kansas City, Mo.



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# ENTREPRENEUR'S NOTEBOOK

By Stephen Kuhnu

## A Rewarding Experience

In New Orleans, if somebody tells you "I'm going to give you some lagniappe," take them up on the offer. A colloquialism for "something extra," lagniappe is a concept that has been central to my company's customer relations since the first Smoothie King Franchise Inc. nutrition store opened in 1973.

Our frequent-buyer program, started as a promotion to get people to try our nutritionally enriched fruit shakes known as Smoothies, not only succeeded in introducing the product but also created strong customer excitement and loyalty for it. And by giving something extra, we encourage our frequent customers to introduce us to new customers—their friends.

In our first store, we started a program in which customers who bought nine drinks got the 10th one free. The program is now used by our five company-owned stores in addition to 115 franchise locations.

By using a frequent-buyer card, our customers in effect receive a discount of about 10 percent on each drink they purchase. The cost to us for each freebie is nominal, however—no more than 5 percent of the retail price of a drink.

Several elements are key to effective frequent-buyer programs:

**Be a standout.** Using brightly colored stock for a frequent-buyer card makes it more visible in a wallet, adding to the likelihood that a customer will spot it and want to use it.

Also, leave enough room on the card for promotional information on any other products your company offers.

**Remind your customers.** Ask people for their card, offer them one if they don't have one, or, if they don't have their card



PHOTO: JACKSON HILL—BLACK STAR

*Nutritional fruit shakes plus a little something extra proved to be the right blend for Stephen Kuhnu of Smoothie King Franchise Inc.*

with them, give them a new one that can be redeemed in combination with the old card.

Only rarely will someone not take a card, and even if a card is never redeemed it is a portable advertisement for your business.

**Be specific.** You want to instill loyalty and positive customer relations, so make sure there's no misunderstanding about what the program offers.

State clearly on the card what individuals will get in return for their purchases, then live up to your obligations.

**Promote good value.** Don't let the giveaway devalue your product. A buy-five-get-three-free offer sends the wrong message. Rather than suggesting a good deal, it hints that you either have a big markup or your product is of so little value that you can afford to give it away.

The right ratio of customer cost to the cost of what's being given away promotes both the value of your product and the con-

sumer's perception of that value.

**Make the offer open-ended.** Frequent-buyer programs that expire promote skepticism, not loyalty. People want to know that their loyalty is well-placed and that you stand by your commitments. Honor your offer regardless of when a card is redeemed, even if it's years after the card was issued.

**Don't punch holes in your efforts.** Rather than use a hole puncher to mark purchases on a card, we use a stamp that tells the day and the time that a purchase was made. Regularly reviewing redeemed cards gives us a good survey of how frequently our customers come in and what kinds of drinks they buy. This is valuable information that we would have to discover through other means if we simply punched cards and threw away the redeemed cards.

For many businesses, a major goal is to bring in frequent buyers. And by rewarding people for doing business with you, you create an incentive for them to become your best customers.

## WHAT I LEARNED

*Offering a perk to people who use a frequent-buyer card creates customer excitement and loyalty.*

*Stephen Kuhnu is chairman of Smoothie King Franchise Inc. in Kenner, La. He prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.*

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# Dateline: Washington

*Business news in brief from the nation's capital.*

## TAXES

### Budget Agreement Contains Mostly Good Tax News

Several tax changes of potential benefit to small businesses are contained in the newly enacted five-year agreement to balance the federal budget.

Among the highlights of the plan is a cut in the maximum tax rate on capital gains for individuals to 20 percent from the current 28 percent; in 2001, the rate is to drop again, to 18 percent for assets held at least five years. A proposal to reduce the corporate capital-gains-tax rate was eliminated from the legislation.

In a step to reduce estate taxes, the agreement provides for increasing incrementally over 10 years—to \$1 million from the current \$600,000—the amount of assets exempted from taxation.

Some small-business owners will get a more immediate boost from a related provision that grants an additional exemption for closely held businesses and farms, beginning in 1998, designed to bring their total exclusion to \$1.3 million right away. But that additional exemption will decrease each year as the basic exclusion increases, so that the combined total in exclusions for closely held firms will never exceed \$1.3 million.

The agreement also:

- Renews the tax exclusion for employer-provided educational assistance—for undergraduate courses only—and extends it through May 31, 2000. The exclusion is retroactive to Jan. 1.

- Increases the tax deduction for health-insurance costs of the self-employed. The deduction had been scheduled to rise gradually from the current 40 percent to 80 percent by 2006. The tax package accelerates the phase-in and increases the deduction to 100 percent by 2007.

- Expands eligibility for a tax deduction for a home office.

On the negative side for businesses, a proposal that would have made it easier for business owners to determine if a worker could be classified as an independent contractor was jettisoned during last-minute bargaining.

More details on the impact of the tax changes on small businesses will appear in the October issue of *Nation's Business*.

—Joan Pryde

## GOVERNMENT



### The Rising Cost Of Government

	Federal, State, Local Spending	Cost Of Complying With Federal, State Regulations	Total Cost Of Government	
In Billions				
1987	\$1,475	\$588	\$2,063	1987
1988	1,554	606	2,160	1988
1989	1,661	649	2,310	1989
1990	1,801	716	2,517	1990
1991	1,900	768	2,668	1991
1992	2,065	832	2,897	1992
1993	2,147	849	2,996	1993
1994	2,218	870	3,088	1994
1995	2,335	907	3,242	1995
1996	2,440	935	3,375	1996
1997	2,538	981	3,519	1997

SOURCE: AMERICANS FOR TAX REFORM

It will cost each man, woman, and child in the United States an average of about \$13,000 this year to cover the more than \$3.5 trillion in spending by federal, state, and local governments and the compliance costs for all government regulations, according to Americans For Tax Reform, a 70,000-member organization in Washington, D.C., concerned with U.S. tax and budget policy. The average job-holder had to work until July 3 to pay his or her share of the cost of government.

### IRS Raises Threshold For Electronic Payment

If you're among the business owners with less than \$50,000 in annual federal employment-tax deposits who were supposed to begin participating in the Electronic Federal Tax Payment System in 1999, worry no more: The Internal Revenue Service has taken you off the hook.

The agency announced July 11 that it is scrapping a rule under which businesses with employment-tax deposits of \$20,000 to \$50,000 in 1997 would have been required to use electronic means to deposit those levies and withheld income taxes in 1999.

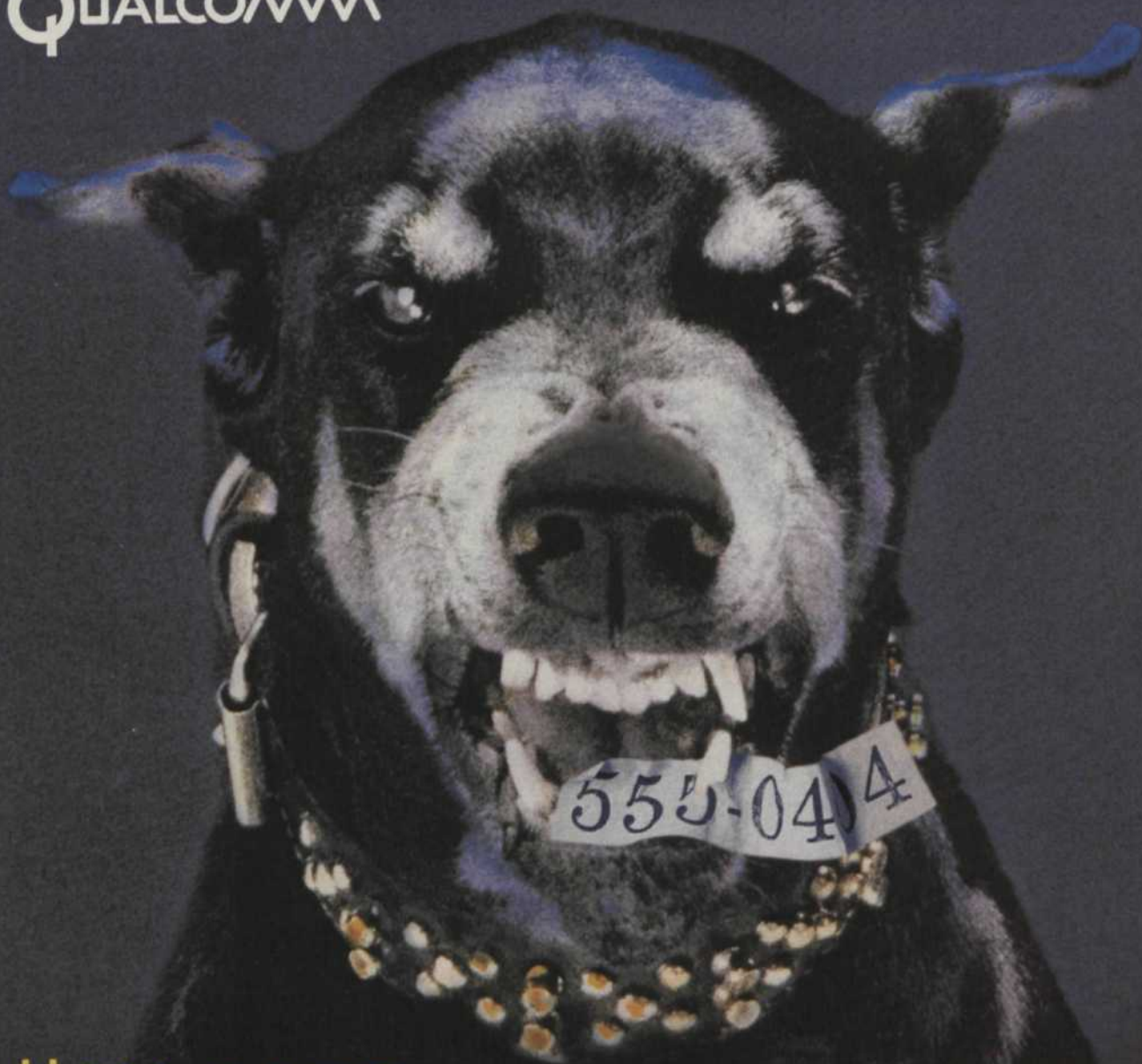
The requirement was not changed, however, for firms above the \$50,000 thresh-

old. Such firms were to be using electronic means for payroll-tax deposits by July 1, but they had been granted a moratorium by the IRS on noncompliance penalties through Dec. 31. A provision in the tax package enacted in August extends that moratorium through June 30, 1998.

Although companies that have less than \$50,000 in tax deposits and that expect to stay there can forget about the electronic-payment system, growing companies must stay alert. The regulations require firms that exceeded \$50,000 in tax deposits during 1996 to start depositing electronically in 1998. If a company passes the \$50,000 threshold in 1997, it must start making electronic deposits in 1999.

—Joan Pryde

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## ENVIRONMENT

Clean-Air Rules  
Encounter Turbulence

Just two days after adopting stringent new air-quality standards, the Environmental Protection Agency encountered a gale of business opposition.

On July 18, four small businesses were joined by the U.S. Chamber of Commerce and the American Trucking Associations in suing the agency. The plaintiffs say the EPA violated the Small Business Regulatory Enforcement Act when it issued the new clean-air rules. The small-business law, enacted by Congress just last year, requires federal agencies to consider the impact of proposed rules on small firms.

People who believe that the clean-air regulations will not hurt small companies or will strengthen the economy "have been inhaling something stronger than ozone," says Robin Conrad, vice president of the National Chamber Litigation Center, the Chamber's legal affiliate.

The EPA estimates that compliance with the new rules for controlling ozone (smog) and particulate matter (soot) will cost \$9.7 billion a year when the rules are fully implemented by 2010, while the savings attributable to health benefits of cleaner air will be worth \$19.4 billion to \$106.1 billion a year. The president's Council of Economic Advisers says a more realistic estimate is \$11.6 billion to \$60 billion a year in compliance costs just for the ozone standard, with annual health benefits of less than \$1 billion.

Business groups maintain that the EPA's cost-benefit estimates are even weaker than the science used to support the new rules.

The EPA's authority to issue the regulations stems from the Clean Air Act, which directs the agency to review air-quality standards every five years, considering only public health—not compliance costs.

Additional legal attacks on the EPA's air-quality rules are expected to come from other quarters, including health and environmental groups that want even stricter rules.

Business's legal challenge to the clean-air rules, filed in the U.S. Court of Appeals for the District of Columbia Circuit, is not expected to be considered until early next year. Meanwhile, congressional opponents of the new regulations are trying to build a

veto-proof bipartisan coalition to postpone implementation of any new air-quality regulations until additional scientific research is conducted.

In the House, attention is focusing on H.R. 1984, a bill that would place a four-year moratorium on new air-quality standards while providing \$75 million a year to install more air monitors around the country and finance additional research. A similar measure is being drafted in the Senate.



PHOTO: SLUC NOVOTICH-REUTERS

**A legal challenge** by business interests followed the announcement of new air-quality rules by Carol Browner, administrator of the Environmental Protection Agency, and Vice President Al Gore.

A vote to kill the regulations outright is considered unlikely because of the political risk to lawmakers of being seen as anti-environment.

The EPA says the air-quality regulations are designed to protect those most susceptible to the effects of smog and soot—the very old, the very young, and the ill. The new rules, the agency says,

will prevent 15,000 premature deaths annually, as well as 350,000 asthma attacks and 1 million cases of serious lung problems in children.

The standards will create a new regulatory category for the microscopic particles created by car and truck emissions. Local governments and businesses are worried about economic and development restrictions that might result if they are designated as air-quality "nonattainment" areas under the new rules.

The new standards will not require new pollution controls for ozone until 2004 or for soot until 2005. Regions could not be cited for noncompliance for three years after those dates. The EPA's final regulations slightly softened parts of the ozone and soot standards from the draft proposal issued in November.

—Stephen Blakely

## PAYROLL COSTS

Minimum Wage Increases  
To \$5.15 On Sept. 1

Businesses that employ workers at the federal minimum-wage rate of \$4.75 an hour must give those workers a raise to \$5.15 an hour on Sept. 1.

The increase is the second and final stage of the 90-cent boost enacted in August 1996. The first step of the increase—to \$4.75 from \$4.25—took effect Oct. 1, 1996.

Meanwhile, Sen. Edward M. Kennedy, D-Mass., suggested recently that he might introduce legislation to increase the minimum wage again in stages to \$7.25 an hour by 2002. Business organizations have generally opposed increases in the minimum wage. They cite numerous studies, notably one conducted in 1993 by a researcher at Carnegie Mellon University, that conclude that minimum-wage increases result in reduced potential for job creation.

—David Warner



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# Managing Your Small Business

*The rewards of talking openly; fostering ethics in employees; taking the leap into incorporation.*

By Roberta Maynard

## COMMUNICATION

### Sharing The Wealth—Of Information

The value of good employer-employee communication is more than mere theory to Michele C. Wong, president of Synergex, a software company in Gold River, Calif. Ten years ago, managers kept workers in the dark about the company's deep financial troubles. When layoffs forced the issue into the open, the remaining employees suggested problem-solving meetings in which anyone could ask questions of any kind.

The result of talking openly, says Wong—then executive vice president—was that morale rallied, and the following year, 1988, was one of the company's best financially.

Information sharing has since become a way of life at Synergex, which has 100 employees. In fact, last year the Enterprise Group of Arthur Andersen, the Chicago-based accounting firm, gave Synergex an award for best business practices in the category of sharing knowledge.

Information sharing reduces duplication of effort and fosters teamwork. It also boosts morale, which is critical to retaining skilled professionals, says Wong. At Synergex, information sharing is considered every employee's responsibility.

These are among the ways the company fosters it:

- At biweekly open forums, employees are encouraged to inform, thank, and question one another.

- A biweekly newsletter published on the firm's internal computer network covers news of the company's people, products, and meetings and carries recreational announcements and classified ads.

- Biweekly team meetings allow members to discuss individual and team goals and the status of previous actions.

- Frequent learning-at-lunch programs help employees learn what workers in other departments do.

- Informal, noontime skill-sharing sessions are held on topics ranging from presentations to bicycle tuneups.

- Monthly financial statements are provided to all employees by the chief financial officer.

- A shared computer database allows workers to post technical questions and answers and to log communications with suppliers and customers.



PHOTO: ©FRED MERTZ

**Open communication** helped boost morale at software company Synergex, says the firm's president, Michele C. Wong, right, talking with employees, from left, Cindy Corrigan, Marty Henderson, and Jerry Fink.

The most significant benefit of keeping workers in touch may be superior customer service. "The company's management is convinced that when employees—especially the sales and product-support staffs—are kept up-to-date on Synergex's overall direction and product news, they can be more ar-

ticulate and forthcoming with customers," says Wong. "Having quick access to accurate information enables them to satisfy customers a higher percentage of the time. And in the competitive software industry, where time is often the most critical factor, that's no small thing." ■

## EXPENSES

### How To Cut Office Equipment's Operating Costs: Turn It Off

If your firm depends heavily on office equipment, you probably have the electricity bills to prove it. Though lighting accounts for the largest use of electricity in commercial buildings, office equipment may soon eclipse it, according to the U.S. Department of Energy (DOE).

The amount of electricity used for office machinery—including computers, monitors, printers, fax machines, and copiers—is growing faster than any other category in the commercial-buildings sector. It is expected to grow by up to 500 percent in the next decade, according to the DOE.

The agency says the cost of operating office equipment can be reduced dramatically

with a single step: Turn it off when it's not in use; leaving equipment on wastes considerable energy. Thirty to 40 percent of computers and printers are left on at night, and computers and printers are idle as much as 90 percent of the workday.

If it is inconvenient for employees to shut off machines throughout the day, at least turn the equipment off at night or when users are out of the office, the DOE advises. New machines are designed so that they can be turned on and off repeatedly without damage.

To learn more about cutting the costs of lighting, machinery, and heating systems, call the DOE's Energy Efficiency and Renewable Energy Clearinghouse at 1-800-363-3732 or visit its World Wide Web site, [www.eren.doe.gov](http://www.eren.doe.gov). ■

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## ETHICS

## Leading By Example May Help Promote Worker Honesty

Getting employees to act in a fair and ethical way shouldn't be as hard as pulling teeth, says Dr. Jim Cuglewski, a dentist who is president of his 13-year-old practice, Cuglewski, Timko & Associates in Parma, Ohio.

Workplace ethics, he believes, boils down to encouraging workers to do what's right. And in a business related to people's health, Cuglewski says, doing the right thing is a basic element of providing quality care.

Cuglewski, a positive thinker who sings while he tends to patients, believes that setting an example every day is the best way for an owner to show employees how to treat customers, suppliers, one another, and, by extension, the company.

"I've got to be the leader and create the atmosphere," says Cuglewski, whose practice has 15 employees. "I don't have to tell employees to be honest and fair—maybe because we work so closely in

this business—it's reflected in conversations they hear between me and patients.

"When employees see me acknowledge a mistake or make a correction at no

attitudes as strongly connected to ethical behavior.

"At one time I used to hire people with dental talents," he says. "About five years ago, I started hiring people who knew right from wrong." He has developed a set of interview questions to gauge how someone would react in certain situations, and references are always asked outright whether the candidate is honest. In 13 years, he has had only one instance in which a worker behaved unethically.

This year, Cuglewski was one of three recipients of the Council of Better Business Bureaus' National Torch Award for Marketplace Ethics.



PHOTO © BRUCE ZAKE

**A company's reputation for honesty and fairness starts with a firm's leader, says dentist Jim Cuglewski, with employees Teri Poch, left, and Lora Dorris.**

To nominate a company—perhaps your own—for the Better Business Bureaus' ethics award, call (703) 247-9396. The deadline is Nov. 3. The competition is open to for-profit businesses that serve retail and wholesale markets. Three companies—one small, one medium, and one large—will be honored.

## BUSINESS STRUCTURE

## Are You Ready To Incorporate?

When deciding whether to incorporate under either Subchapter C or Subchapter S of the Internal Revenue Code, a small company should consider the costs of incorporating and maintaining corporate status as well as the incorporation process itself.

Incorporation involves filing documents and paying a one-time fee, which ranges from \$74 in Delaware to \$900 in California, as well as an annual tax that also varies by state, says Caroline Quigley, executive vice president of Inc. Plan (USA), an incorporating service in Wilmington, Del.

Filings can take from a few minutes by phone to several weeks, depending on the state and on who is handling the process. In Illinois, for example, filings can take six weeks because they must be reviewed by the secretary of state and county officials.

Quigley says the incorporation process can be handled by attorneys, by an incorporating service, or, for the lowest cost,

by the company itself—if it is willing to take the time.

Where to incorporate is also a consideration. Someone with a passive asset—such as real estate or a boat—may want to incorporate in Delaware, whose corporation-friendly laws include anonymity of the principals and low costs, Quigley says. But an income-producing company actively doing business in another state or states probably should incorporate in those states, she says.

Maintaining the new corporate entity requires some record keeping, says Quigley. An annual report must be filed with the state, and a corporate tax return must be filed with the Internal Revenue Service. The corporation must maintain a registered agent, have a board of directors, and hold an annual meeting unless it is waived by the board.

The complexities of compliance with rules of incorporation vary from state to state, Quigley says.

A company consisting of just one person can incorporate in any state except Arizona, where two are required. Quigley advises, though, that new en-

trepreneurs shouldn't consider incorporating until they have built a going concern that regularly provides a service or product.

More on this topic can be found in attorney Stuart A. Handmaker's new book, *Choosing A Legal Structure For Your Business* (Prentice Hall, \$13.95). The book offers detailed information on sole proprietorships, partnerships, incorporations, and limited-liability companies.

Another useful resource is *How to Incorporate* (John Wiley & Sons, \$19.95), by attorneys Michael R. Diamond and Julie L. Williams. **NB**

## NB TIP

## Women Entrepreneurs

The 11th annual Entrepreneurial Woman's Conference will be held Sept. 12 in Chicago. Sponsored by the nonprofit Chicago-based Women's Business Development Center, the daylong session will include forums on a variety of business challenges. For information, call (312) 853-3477, Ext. 45.



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## COVER STORY

# The Big Switch

By James Worsham

**I**magine Lorrie Carey's predicament: 29 companies bombarding her mailbox with high-powered pitches to sell electricity to her floral shop in Penacook, N.H., just outside Concord.

The claims certainly sounded tantalizing: "Here's the deal you've been waiting for, pure and simple." "Only one supplier has the energy to cut your business's energy costs hundreds of dollars every year." "Your business can save money and make an environmentally sound choice."

Some companies promised rebates and cash payments; others threw in phone service. One offered a bird feeder, another a spruce sapling. "I didn't want phone service or a seedling," Carey says, "I just wanted power."

As the owner of Marshall's Flowers and Gift Studio, a third-generation family firm, Carey became a target of the power companies when she took part in a statewide pilot project in 1996 to assess the impact that competition could have on the electricity market. Ultimately, she made a choice and cut her power costs 15 percent; most of that savings had been guaranteed to the project's participants. Now, everything seems fine, she says. "I haven't noticed a change that is negative."

Marshall's Flowers is a bit player in the opening act of what may be the last great deregulation drama to grip the U.S. economy this century. Trucking, airlines, railroads, natural gas, financial services, and telecommunications have gone before—all in just the past two decades. But none was larger or more pervasive at its time than the \$210 billion-a-year electric-power business is today.

Deregulation of electricity means your local utility will lose its long-standing monopoly to light your office and power your equipment. Companies and individuals will be able to buy power from any supplier, and other companies will be allowed to generate and transmit it. And these changes are going to happen sooner than you might think.

As New Hampshire prepares for full-scale deregulation scheduled for Jan. 1, a



PHOTO: RICHARD HOWARD

**Customer service** was important to Lorrie Carey, owner of Marshall's Flowers in Penacook, N.H., when comparing offers for electricity.

*Some small-business owners are beginning to see the impact of electricity deregulation, and others would be well-advised to know what's at stake.*



number of other states are poised to begin deregulation in the next few years. Meanwhile, legislatures and public utility commissions in most other states are considering deregulation. (See "The States Take The Lead," on Page 22.)

"I'm sort of surprised that it's going as quickly as it is," says Charles Gray, general counsel for the Washington, D.C.-based National Association of Regulatory Utility Commissioners.

The level of electricity deregulation that has already been ordered will affect about one-third of the U.S. population when it is implemented fully over the next several years. "You could see in the next 24 months another few states on board that would [bring the amount to] 50 percent of the population," Gray says.

The states furthest along in deregulation generally are those with the highest electricity rates, such as New Hampshire, which has the steepest in the country.

The push to deregulate has a powerful economic underpinning. Lowering rates is important for a state's economic-development efforts to retain its job-producing industries and to attract new businesses, says Dennis Buffington, a professor of agricultural engineering at Pennsylvania State University and an expert on electricity usage.

For example, a study by Richard Silkman, a private economist in Yarmouth, Maine, showed that a 10 percent reduction in electricity rates in the five-county Philadelphia area of southeastern Pennsylvania, served by Peco Energy Co., would put \$110 million in residential consumers' hands in one year, generating economic activity that would create 5,600 jobs. The study was done for several consumer groups and others that have taken issue with the utility's proposed charges under deregulation. Adds Silkman: "Rate reductions put money in consumers' pockets, so in that sense they act very much like a tax cut."

As regulators retreat from the electric-power market, more residential and small-business users will be able to shop for elec-

## Declining Electricity Prices

The average retail price of electricity in cents per kilowatt-hour (1992 dollars) for all classes of customers—residential, commercial, and industrial—from 1960 to 1995.



## Increasing Demand For Electricity

U.S. retail electricity sales, 1950 to 2015, in billions of kilowatt-hours.



tric power just as they shop for long-distance phone service, air travel, or overnight delivery service.

Nonetheless, in dealing with electricity deregulation, small companies face certain risks, which include:

**Being A Small Player:** Individually, small firms lack the purchasing power of big companies to get volume discounts on power. So they may have to "aggregate" through ad hoc purchasing groups or trade associations to negotiate the best rates.

**Confusing Choices:** Small companies may find offers of electric service confusing and hard to compare, just as florist Carey did in New Hampshire.

**Unknown Usage:** Small firms may not know how to cut electricity costs unless they understand enough about their own power use to know, for example, how much electricity is used in the manufacturing of each product or the delivery of each service. (See "Coping Tips For Small Firms," on Page 21.)

**Rate Increases:** Small businesses in states where power is cheap might see some rate increases as a national market emerges and rates drift toward U.S. averages.

Deregulation also offers small-business customers potential opportunities:

**One-Stop Shopping:** Small-business owners in some areas will have the option to buy, in one package, electricity, natural gas, telephone service, Internet access, and home-security services. Such a menu is offered by EnergyOne, a joint venture of Peco in Pennsylvania and UtiliCorp United Inc. of Kansas City, Mo.

**Lower Rates:** Many small firms may see lower rates as soon

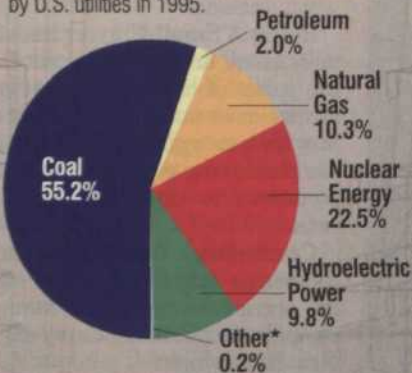
## COVER STORY

as deregulation is implemented, especially in states where such reductions are mandated. But lower rates solely as a result of competition may not be seen in some states, at least until transition periods are over.

**New Niches:** Although a number of mergers and acquisitions have been completed or are pending in the electric-power industry, there are likely to be opportunities for small firms to fill new needs and niches—such as new electrical products or outsourced services to power providers—in an unregulated electrical-service marketplace.

### Electricity's Foremost Fuel: Coal

Resources used to produce the 2,995 billion kilowatt-hours of electricity provided by U.S. utilities in 1995.



\*Includes geothermal, wind, solar, and biomass sources

SOURCE: U.S. ENERGY INFORMATION ADMINISTRATION

**Economic Growth:** Lower rates could spur economic development, business start-ups, and job creation.

Robert Johnson, executive director of the Electric Consumers Alliance, based in Indianapolis, says the impact on small users will depend on their location, their economic clout, the strength of their state's consumer-protection laws, and their ability to distinguish among the services and prices offered by electric-power competitors.

He adds: "Whether residential and small-business consumers are winners or losers is an open question that depends very much on where one sits as restructuring unfolds."

**C**entral to the debate over electricity deregulation is whether the rules will be written by the states or the federal government.

State utility commissions closely regulate the electric-power business. They decide on all rate-increase proposals and on requests to build power plants or to close them. The commissions even decide how much profit an electric utility will be allowed.

## Covering The 'Stranded' Costs

Deregulating an industry usually means lower prices and more choices, at least at the beginning. But opening the electric-power business to competition will have its costs—the most prominent of which are those for "stranded assets."

The biggest such cost in the power industry is the towering debt that numerous utilities incurred to build nuclear-power plants. In general, the electricity generated by these plants costs more per kilowatt-hour than power generated by conventional coal-fired power plants.

In a regulated market, power companies are permitted to charge customers rates high enough to enable the companies to pay down debt from the construction of nuclear plants.

That may mean the companies sell power for 2 or 3 cents more per kilowatt-hour than do low-cost producers, which usually haven't made such investments.

Hence, as the nuclear power plants' customer base migrates to cheaper power sources, the costs of paying off nuclear plants would no longer be covered by revenues, and those plants would become so-called stranded assets.

Other stranded costs include contracts for electricity at above-market prices from alternative power sources such as solar power. The portion of the price that could not be recovered in the market would thus be stranded.

Resource Data International Inc. of Boulder, Colo., says stranded costs nationwide total about \$202 billion. Moody's Investors Service puts them at about \$135 billion. Other estimates are lower.

Resource Data International says that 86 percent of the stranded costs lie in 10

states that have 43 percent of the electricity market. California has the highest stranded costs, at \$22.9 billion, followed by New York, Texas, Illinois, Pennsylvania, New Jersey, Ohio, Georgia, Massachusetts, and Connecticut.



Officials of utilities with high stranded costs say that when they made the investment decisions, they had expected, under regulation, to be able to recover the costs. Now they say that if they can't recover the costs, they might go bankrupt.

Opponents of proposed rules to allow utilities to tack on charges to their bills to recover those costs say the companies made their own decisions to build plants and that they were never guaranteed a protected, regulated market forever.

The big question on stranded costs is: Who will pay them? Will it be the ratepayers of an individual utility, all ratepayers in a state, taxpayers via a government bailout, or the utility's shareholders?

If stranded costs are built into post-regulation customer bills—as is expected to occur in some states considering or phasing in deregulation, including California—the full benefits of competition will have to wait until these costs are paid.

After competition begins, commissions will still regulate the electricity-distribution system (local power lines) and set policy on issues such as universal service.

Although some states are moving aggressively toward deregulation, well-heeled lobbies for competition in electric power want to turbocharge the process nationwide through congressional action.

Prominent in the battle for federally ordered deregulation are some of the big users of power; independent (nonutility) power producers; power marketers, which buy and sell electricity wholesale but don't produce it; and some low-cost utilities seeking to build market share.

So far, there are four major bills in Congress to deregulate the electric-power

industry. All of them would give states a deadline for implementation.

But advocates of quick congressional action are up against powerful forces that maintain that electricity deregulation should be left to the states. Prominent among them is the Edison Electric Institute, a Washington-based association of investor-owned utilities, many of which have huge investments in high-cost plants and significant clout in state capitals.

Aside from comprehensive federal legislation that would mandate nationwide deregulation, several major hot-button issues are interwoven into the nationwide debate:

**Stranded Costs:** Many large utilities are concerned about how, in a deregulated market, they could repay mountainous debt

incurred in building nuclear-power plants and stay competitive with companies that don't have similar costs. (See "Covering The 'Stranded' Costs," on Page 20.)

**Environmental Concerns:** Competition will increase demand for the cheapest electricity, resulting in pressure to rely more on old coal-fired generating plants in the Midwest, many of which don't meet today's strict clean-air rules. The Clinton administration has adopted tighter clean-air regulations, but there's strong opposition on Capitol Hill and elsewhere. (See Dateline: Washington, on Page 10.)

**Public Power:** Congress must decide how—or even whether—a deregulated market would accommodate federal public-power authorities such as the Bonneville Power Administration, based in Portland, Ore., and the Tennessee Valley Authority, headquartered in Knoxville, as well as municipal power companies, all of which receive special tax treatment.



PHOTO: GRIFF FREDMAN—BLACK STAR

**Real savings** came about for the Blue Seal Feeds plant in Bow, N.H., says Dan Faries, plant manager.

The electric industry began, of course, with Thomas Alva Edison, who invented the light bulb in 1879 and built the first power station three years later in New York City. The industry and its government overseers have burgeoned since.

Regulation dates back almost a century.

Samuel Insull, a top assistant to Edison, convinced the electric industry—faced with competition from municipal power systems—that competition was bad for them. Instead, he argued, there should be monopolies, with exclusive service territories, regulated by the states.

In 1907, Wisconsin and New York became the first states to create public utility commissions. By 1921, all states except Delaware had them. Today, all states and the District of Columbia do.

In addition, the U.S. government exercises authority over the electric industry through the Federal Energy Regulatory Commission (FERC), which oversees

most interstate transactions in oil, natural gas, and electricity, and the Nuclear Regulatory Commission, which licenses and regulates nuclear plants.

In 1996, the FERC allowed utilities and other power providers to sell electricity on a wholesale basis, at any price, outside their traditional service areas, setting the stage

## Coping Tips For Small Firms

How can a small-business owner or manager cope in the world of deregulated electricity?

You or someone at your company has probably always paid the local electric utility without much thought about the kind of service provided, how much is being paid, or what other services you might get. That will change as the competitive electricity market spreads through the United States.

Here are some suggestions from experts for coping with electricity deregulation:

■ Even if deregulation is not at hand in your state, calculate how much electricity your company uses. Know what it costs at various times of the day, week, and year, and know your firm's monthly charges.

■ Look at your company's specific products or services. Determine how much electricity, in kilowatt-hours and in dollars, is needed to make, say, 100 units. This will help you compare offers from other electricity providers later.

■ Get help in analyzing competing offers. Request a customer guide from your

state's public utility commission, which likely will have ordered deregulation. Trade associations, chambers of com-



merce, and city or state consumer-affairs offices also may offer help.

■ Join a group. A small business generally lacks the market influence to obtain the big-volume discounts that a large industrial user can get. But small firms can pool, or aggregate, themselves. Cities and towns already are aggregations, but business groups or neighborhood associations could form groups.

■ If you rent space and electricity is included in the rent, determine the portion of the rent that goes to pay for electricity.

If your landlord is able to get electricity for less, make sure the savings are passed on to you.

■ If you find comparing rates and services too confusing, you can hire a firm to shop for the best electricity buy for you and to handle all your needs for electricity, oil, gas, telephones, and possibly even Internet and security services. You should get good prices because the firm you pick presumably will be buying in large quantities.

■ If deregulation hasn't reached your state or if the final rules haven't been written, make your views known on the issues most important to you. Contact your state representatives or public utility commission or work through business groups or coalitions.

Jacqueline Killgore, president of the New Hampshire Public Utility Policy Institute, a research and education group based in Concord, says it's important for electricity users to take time to consider offers and pick the best one.

She adds: "My greatest fear is that people won't exercise the choices they have and we will end up with the worst of all worlds—an unregulated monopoly."

## COVER STORY

for the coming retail price competition.

While regulation has grown mightily since Insull's time, so has the industry. About 250 of the 3,200 utilities nationwide are investor-owned and provide almost 75 percent of all the utility-generated electricity used in the United States.

There are about 2,000 state- and locally owned public power systems, which generate about 11 percent of utility-generated power. An additional 9 percent is generated by the 10 federal power systems, including the TVA in the Southeast and Bonneville in the Northwest, and 6 percent comes from rural electric cooperatives—some of which generate their own power—that serve about 30 million people.

Other electricity providers include independent power producers (IPPs) and power marketers. IPPs generate power from their own plants and sell it on contract to their customers. Power marketers don't generate electricity but buy it wholesale from utilities and other suppliers that don't need it; they then re-sell to those that do.

The IPPs and power marketers are among those pushing most aggressively for deregulation, and they are moving in to cap-

ture markets that once were the preserves of the established utilities. In fact, more than half of the new generating power each year comes from nonutility suppliers.

Though Congress is not expected to vote on deregulation legislation this year, the political debate is in full swing.

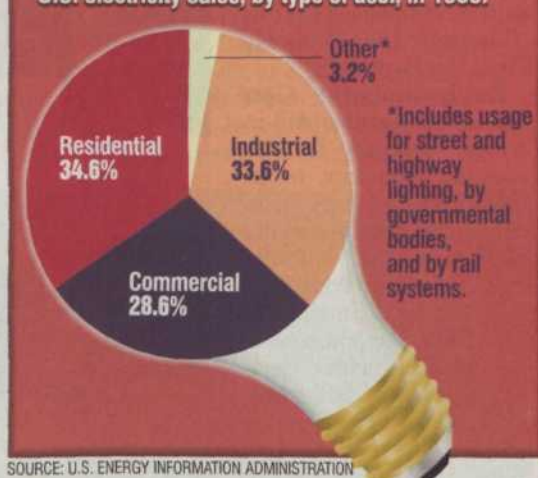
"Deregulation of the electricity market is the largest pending issue of competitiveness in the U.S. today," Jeffrey Skilling, president of Enron Corp., told the Senate Energy Committee earlier this year. The Houston-based oil and gas company is spending millions in advertising nationwide to establish its brand name as a gas and electricity provider.

Noting that electricity has been delivered through a patchwork of monopoly utilities for years, Skilling added: "No one can seriously defend that system anymore. It is inefficient. It is unnecessarily costly. It stifles innovation."

Richard C. Green Jr., chairman of UtiliCorp United, says federal legislation is

## Who Uses How Much?

U.S. electricity sales, by type of user, in 1995.



SOURCE: U.S. ENERGY INFORMATION ADMINISTRATION

needed to set a deadline for the states and to lay out common rules for deregulation—but not to mandate how it will work in each state. "What we need in federal legislation is a framework to move through the transition [to a deregulated market] as opposed to

## The States Take The Lead

While Congress considers various proposals to restructure the electric-power industry, state legislatures and regulatory commissions are moving ahead in that direction.

The circumstances vary widely by state. In some states, legislatures have passed deregulation bills and regulators are taking action to carry them out. In other states, regulators have acted on their own because they have broad authority and the political climate allows them to move ahead, says Charles Gray, general counsel of the National Association of Regulatory Utility Commissioners.

In most states, regulators either are studying deregulation, have official investigations under way, are holding hearings, or have issued a draft order.

There are court challenges in five states—including four where regulators have issued their final deregulation orders.

Here is a status report as of mid-July

from the National Regulatory Research Institute, an arm of the utility-commissioners association.

### Regulations Final:

Arizona, California, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Texas, Vermont.

### Legislation Approved:

California, Maine, Montana, Nevada, New Hampshire, Oklahoma, Pennsylvania, Rhode Island.

### Legislation Failed Or Vetoed:

Arizona, Colorado, Connecticut,

Florida, Illinois, Minnesota, Missouri, Nevada, Texas.

### Issue Pending Before Regulators:

Alabama, Alaska, Arkansas, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas,

Kentucky, Louisiana, Maine, Maryland, Minnesota, Mississippi, Missouri, Montana, Nevada, New Mexico, North Carolina, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Utah, Virginia, Washington, West Virginia, Wisconsin, Wyoming.

### Bills Pending In Legislatures:

Alabama, Alaska, Arizona, Colorado, Connecticut, Delaware, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Massachusetts, Minnesota, Mississippi, Montana, Nevada, New Mexico, New York, North Dakota, Ohio, Oregon, South Carolina, Texas, Utah, Vermont, Virginia.

### Legislative Studies Under Way:

Arizona, Colorado, Delaware, Florida, Idaho, Illinois, Indiana, Kansas, Louisiana, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Mexico, New York, North Carolina, North Dakota, Ohio, Oregon, Utah, Virginia, Wisconsin.

### Legal Challenges Pending:

Alabama, Arizona, Michigan, New Hampshire, New York.

### No Activity:

Tennessee.



PHOTO: T. MICHAEL KEZA

**Sign-up incentives** were showered on New Hampshire residents by power providers.

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## COVER STORY

[the federal government] making decisions the states should make," he says.

But as aggressive as Enron and UtiliCorp are and as strong as the chorus is for federally mandated deregulation with a deadline, the other side is formidable.

"We think the 50 states and the District of Columbia are moving pretty aggressively forward," says David Owens, a vice president of the Edison Electric Institute. "It would be premature for Congress to mandate deregulation by a date certain with a 'one-size-fits-all' solution."

The owners of Edison Electric's member utilities have also weighed in on the debate. William D. Steinmeier, former chairman of the Missouri Public Service Commission and national chairman of the Electric Utility Shareholders Alliance, notes that nearly two-thirds of the common stock in investor-owned utilities is held by individuals; the rest is held by institutional investors such as pension funds and insurance companies, which are investing money entrusted to them by individuals.

Steinmeier warned the Senate panel in the spring that many people could be hurt if Congress took action that devalued the investments made by investor-owned utilities—especially in high-cost power plants—and left those companies with high-cost contracts for alternative-source power, such as solar power.

"Millions of ordinary Americans stand to lose from federally mandated retail competition," Steinmeier said.

**E**lectricity is already cheaper in the United States than it is in many other industrialized nations. (See the charts on Pages 19 and 26.) So how much more could rates fall when deregulation is implemented? Projections vary widely.

A study by the Citizens for a Sound Economy Foundation, a conservative research group in Washington, said that if fully implemented nationwide, electricity deregulation would save users 43 percent and average consumption of then-cheaper electricity would increase 42 percent from current levels over five to 10 years. The study, conducted by three Clemson

University professors, also said deregulation would add 2.6 percentage points to the nation's economic growth rate, which last year was 2.4 percent.

The Clemson work has come under sharp attack. A study conducted for the Electric Consumers Alliance said the Clemson report was "seriously flawed" in that it overstated the projected reductions in rates and the increases in electricity consumption, thus affecting the projected impact on gross domestic product.

A study on the possible effects of electric-power deregulation, done by the Center for Market Processes at George Mason University in Fairfax, Va., examined the question in light of the deregulation of other industries over the past two decades—airlines, trucking, railroads, natural gas, and long-distance telephone service.

The study said that in each of those five industries, consumer prices fell 4 to 15 percent in the first two years after deregulation and 25 to 40 percent after 10 years.

"Based on experience in other industries, electricity regulatory reform should



PHOTO: RICHARD HOWARD

**Still skeptical** despite some savings is William "Buddy" Croft Jr. of the Granite State Potato Chip Co. in Salem, N.H.

produce gains well in excess of the transition costs," the study's authors wrote.

But Max Fallex, director of the Minneapolis-based American Institute of Small Business, a research and education group, notes that after deregulation of long-distance telephone service and cable-television service, "rates did go down initially, and then they started climbing."

**B**est known for its first-in-the-nation presidential primary every four years, New Hampshire launched the first-in-the-nation statewide pilot program to lower electricity rates and boost economic development through deregulation.

In New Hampshire and in pilot programs in other states, small businesses that are choosing their electric-power provider—something unheard of during the long era of regulated, monopoly utilities—are both pleased and befuddled by the new market. But for now, they're saving money.

"We are satisfied," says Dan Faries, manager of the Blue Seal Feeds Inc. plant in the town of Bow. The plant produces a wide variety of animal feeds. At the begin-

ning of the pilot project, Faries says, Blue Seal got power 18 percent cheaper than it had previously, but now it is saving about 10 to 14 percent. The savings rate might shrink even more under full deregulation, he says. "In the final analysis, I don't think it will be as lucrative [for users] as it is now."

Another New Hampshire business owner isn't so sure what he thinks of deregulation. William "Buddy" Croft Jr., fourth-generation owner of the Granite State Potato Chip Co. in Salem, says he pays \$300 to \$400 a month for electricity to power a snack-food-manufacturing plant and a retail store. Croft says he's not certain how much he's saving, but he believes he's paying less for more electricity. "I think it's a better deal," he says. "It might be a couple hundred dollars less a year, but I'd probably never see it because of increases in other costs."

Flower-shop owner Carey in Penacook is in a group of 17 retailers organized by the Retail Merchants Association of New Hampshire. Those firms get their electricity from the Wheelabrator Electric Power Co. in

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## COVER STORY

Uniondale, N.Y., which buys electricity from Cinergy Corp. of Cincinnati.

"This seemed to be the best deal," says Carey, whose firm was started by her grandfather in 1956 and now employs five people. "Most of [the offers] were similar. There wasn't a great variance in cost."

Carey says she thinks her flower shop is doing better as part of the purchasing group than it would do if it were on its own. Says Jennifer Graney, the association's director of governmental affairs: "We found we could get a better price."

The New Hampshire Public Utilities Commission reports that, on average, customers in the pilot are getting a 15 to 20 percent cut in their bills, with a 10 percent reduction in the electricity-generation portion (exclusive of transmission, distribution, and other charges). All customers in the pilot program were guaranteed a 10 percent overall reduction just for participating.

At one point the program had 38 electricity suppliers, primarily in the Northeast, but the commission now reports that 15 or 16 firms account for the majority of the sales.

The pilot program was also a learning experience for the state's largest utility, Public Service Co. of New Hampshire, a subsidiary of Northeast Utilities, based in Berlin, Conn. John Muro, vice president for retail marketing, says that by selling electricity under three different brands in the program, Northeast retained 60 percent of the participants who had been its customers. "We were very pleased with the strategy we used," he says.

Like other companies, Northeast is moving aggressively into retailing, including hiring executives from unregulated, competitive industries, and it plans to sell electricity and ancillary products and services through a new retail-oriented subsidiary, Select Energy, Inc.

(Public Service of New Hampshire is challenging the deregulation order in federal court over several provisions, including stranded costs, so many of the details are undecided.)

Pilot programs are also under way in Massachusetts, New York, Illinois, Washington, and Idaho.

"I don't think you can tell too much from these experiments," says Stanford Levin, a professor of economics at Southern Illinois University in Edwardsville and a former member of

the Illinois Commerce Commission.

In California, the nation's most populous state, with electricity rates that are 30 to 50 percent above the national average, deregulation will be phased in over four years beginning Jan. 1. So far, about 30 companies have registered with the California Public Utilities Commission to offer electricity; those providers are in addition to the state's seven existing public utilities. The California plan mandates a 10 percent rate reduction for consumers and small commercial users.

Betty Jo Toccoli, president of the 187,000-member California Small Business Association, is concerned that the change won't actually benefit small firms and that business owners and managers won't be informed about how it works.

"The thing that's most frightening to me is that everybody thinks that competition and choice mean that there's an automatic rate reduction," she says, expressing concern that some small firms might see rate increases. "But competition also means there are winners and losers."

The likely total impact of electricity deregulation on the economy—and on small business in particular—is not yet clear. UtiliCorp's Green says, however, that failure to deregulate would hurt small companies. "If we don't do anything," he says, "the big industrials will go on and continue to get the benefits [of volume discounts] and the rest of the market won't."

Levin, the former Illinois regulator, agrees that small firms would benefit. Under the current structure, big industrials and consumers are well-represented during the process of establishing rates, he says, but small firms are not. "In the regulatory process, it's been the small businesses who have really fared the worst," he says.

But Allen Mesch, director of the Maguire Oil and Gas Institute at Southern Methodist University in Dallas, isn't as optimistic for small firms. "The larger the customer," he says, "the better the deal they're going to get."

Julie Scofield, executive director of the Smaller Business Association of New England, notes that small firms have tra-

ditionally stayed afloat by keeping their costs down, and she fears deregulation will make that harder. "The small businesses are the ones that are creating jobs and [are] responsible for innovation, and it's putting a greater burden on them," she says, referring to the time small firms will have to spend evaluating new options.

The old-line utilities, too, will have to get used to not having comfortable monopolies, captive customers, and guaranteed rates of return.

One company doing so already is PG&E Energy Services, a unit of San Francisco-based PG&E Corp. Scott Gebhardt, president and CEO, says his firm will operate nationwide and provide all customers a full range of enhanced services such as energy audits and more-effective energy use—in addition to natural gas and electricity. "These customers can outsource their entire energy management to us," he says.

Notes Muro of Northeast Utilities: "Relationships matter. Price is important but is not necessarily the only thing."

New Hampshire florist Carey agrees.

**"Based on experience in other industries, electricity regulatory reform should produce gains well in excess of the transition costs."**

—Study By The Center For Market Processes, George Mason University

## Electricity Price Comparisons

Average electricity prices, by country and type of usage, in 1995. Figures are U.S. cents per kilowatt-hour.



SOURCE: INTERNATIONAL ENERGY AGENCY OF THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT

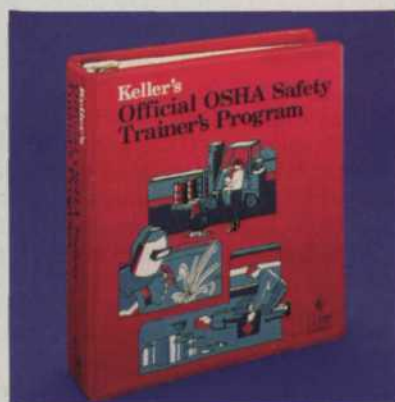
She says competition has been good for all the companies, especially the old-line utilities that aren't used to competing: "It's improved the whole business environment because companies are saying to their customers: 'What is it you want?'"



To order a reprint of this story, see Page 60. For a fax copy, see Page 74.

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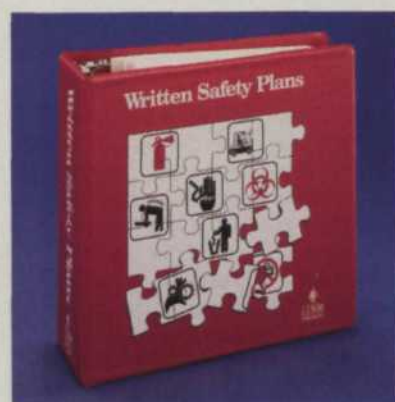
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## REGULATION

# A Rule Mandating Safety And Health?

By David Warner

**K**atherine Gekker, owner and president of Huffman Press in Alexandria, Va., is concerned about the safety of her 10 employees. In years when she could afford it, Gekker has had her insurance company perform an audit of workplace safety and health. And each year she responds to suggestions by the local fire department on potential hazards—even those that aren't necessarily fire-related.

But commercial printing is a high-hazard industry, and Gekker says accidents are bound to happen. That's why she is equally concerned about a proposed minimum federal standard for mandatory employer safety-and-health programs. Gekker fears that such a standard, which is being written by the federal Occupational Safety and Health Administration, could lead to fines for workplace injuries and illnesses that no business owner could foresee or prevent.

Gekker cites a recent accident at her company in which a worker adjusting a vent fell through the roof. "You can't plan for that," she says, explaining that the worker took a misstep on a part of the roof that wasn't built to hold people.

The OSHA standard could be issued as a formal proposal for public comment by the end of the year, according to the agency's acting administrator, Gregory Watchman.

A 1995 draft of the standard—which is not expected to change significantly before it is issued—calls for all businesses to have in place a program for managing safety and health and identifying and controlling workplace "hazards."

Employers would have to inspect their work sites "as often as is necessary" or "appropriate," and employees would be allowed to participate in the inspection of the workplace and could recommend remedies for potential hazards. Workers also would have to be educated about hazards in their jobs and trained to deal with such hazards.

Watchman says the agency wants to implement the regulation because thousands of workers are killed and millions are injured or become ill each year, and "safety-and-health programs have a long track record of success; they are effective in reducing injuries, illnesses, and fatalities."

Although virtually no one disagrees with the belief that safety-and-health programs can cut workplace accidents—and thereby



PHOTO: T. MICHAEL KEZA

**Printing-firm owner Katherine Gekker: Penalties for unpreventable injuries?**

reduce the costs of workers' compensation and health insurance—few businesses see the need for a federal rule that would establish a requirement for such programs. "I have not had an injury here yet that would have been prevented, I don't think, by an OSHA safety-and-health-program standard," says Gekker.

Under the Occupational Safety and Health Act of 1970, OSHA was authorized to issue citations and fines for violations of the General Duty Clause, which requires an employer to maintain a safe and healthful workplace. But the General Duty Clause requires that before a citation can be issued, OSHA must prove that an employer had a "recognized" hazard that could have been eliminated easily.

With a standard requiring a safety-and-health program, critics say, the agency could issue citations and levy fines based on an inspector's subjective determination that a company's program was inadequate because it failed, for example, to address all conceivable hazards.

"We don't really need a safety-and-health-program standard," says Melissa A. Bailey,

*Critics of a proposed OSHA standard on safety-and-health programs say it would hurt businesses more than it would help.*

an attorney with the OSHA Practice Group in the Washington, D.C., law firm of McDermott, Will & Emery. Most large and medium-sized companies already have elaborate safety-and-health programs, she says, and although many small firms don't have formal programs, what they need is not a new federal regulation but education and consultation about workplace safety and health.

Although OSHA's Watchman says the draft proposal states that the standard would include only hazards now covered under existing hazard-specific standards and the General Duty Clause, Bailey says the standard probably would be vague and open to interpretation by OSHA inspectors. "Until that inspector shows up at your door and tells you, you don't know if you have [complied]," Bailey says. "You may think you have, but the inspector may think otherwise."

That would be particularly true after an accident, says Bailey. The accident could be used by OSHA as proof that the company's safety-and-health program was inadequate, she says.

**O**ther critics, including the U.S. Chamber of Commerce, view the proposed standard as troubling for reasons apart from the costs and paperwork burdens associated with most federal rules. They contend that it's a backdoor attempt by OSHA to impose a host of new hazard-specific workplace standards on business, including a controversial ergonomics standard being crafted by the agency to address repetitive-stress injuries.

"Because the safety-and-health-program standard would cover all hazards, it would allow OSHA to, in effect, regulate on such issues as ergonomics and workplace violence without having those issues subject to a regulatory-review process and public-comment period," says Peter Eide, a labor attorney with the Chamber.

Bailey says that OSHA has a number of resources to help businesses—particularly small firms—make their workplaces safer and more healthful, such as the voluntary guidelines on safety-and-health programs it issued in 1989. "But issuing a costly standard," she says, "may hurt rather than help small businesses and their employees." **■**



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## Redefining The Home-Office Deduction

By Gloria Gibbs Marullo

**T**he home-office deduction has been around for more than 20 years, but home-based-business owners and the Internal Revenue Service have yet to see eye to eye on what constitutes a tax-deductible home office. Little wonder. It's more complicated than it initially appears.

It is not just one deduction but actually several deductions added together. They

lion people claim the home-office deduction each year, according to the IRS. To qualify, you must show that you use your office *exclusively* and *regularly* in a trade or business.

In addition, owners must meet at least one of the following three tests:

■ The home office is the taxpayer's principal place of business.

■ The home office is a place where the taxpayer meets or deals with patients,

court interpreted the principal-place rule very narrowly in *Soliman vs. Commissioner of Internal Revenue*. The decision eliminated the home-office deduction for many taxpayers.

The Soliman case involved a self-employed anesthesiologist who worked at three hospitals but maintained a home office to do his scheduling, patient reports, insurance filing, and billing. Soliman claimed a tax deduction for depreciation of the office portion of his home, but the IRS denied it after an audit of his tax return.

Soliman appealed all the way to the Supreme Court, which upheld the IRS. The high court ruled that the doctor's principal place of business consisted of the hospitals where he spent 30 to 35 hours a week with patients.

In 1994, the IRS issued a set of regulations designed to explain by example what the Supreme Court ruling meant. One example involves a plumber who works from home and employs one full-time worker to answer phones and do bookkeeping. The plumber actually uses his home office 10 hours a week and is at customers' homes 40 hours a week. The IRS says he is not entitled to deduct depreciation because his home office is not his principal place of business.

Nonetheless, he may deduct all ordinary business expenses, including the employee's salary.

Dissatisfaction over the Supreme Court's restrictive interpretation prompted small-business advocates on Capitol Hill to propose overturning the Soliman ruling. Congress did just that in the tax bill passed in late July, by redefining a principal place of business as an office that meets both of the following descriptions:

■ It is used for conducting administrative or management activities of a trade



PHOTO: T. MICHAEL KEZA

**Because her home office is her principal place of business, Traci DeGroat of KTDID Marketing & Promotions in Virginia has no problem claiming a home-office tax deduction.**

include a portion of items such as mortgage interest or rent, depreciation of the space used as the office, utility bills, insurance costs, and repairs.

"The home-office deduction is a clash of conflicting principles," says Karen F. Brown, a CPA in Manassas, Va., who specializes in small businesses. "Family and personal living expenses are not deductible. Business expenses are. It's inevitable that the rules will collide."

Despite such collisions, about 1.6 mil-

lions of clients, or customers in the normal course of business.

■ The home office is a separate structure, not attached to the residence, used in connection with the taxpayer's trade or business.

### The High Court's Opinion

Determining whether an office meets the principal-place-of-business test has sparked hot debate and one landmark Supreme Court case. In 1993, the high



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## SMALL BUSINESS FINANCIAL ADVISER

or business.

■ It is the only place where the business owner conducts substantial administrative or management activities for the trade or business.

Thus, business owners who perform services or deliver goods outside the home, such as sales representatives and real-estate sales agents, will be able to qualify for the home-office deduction.

But not right away. The change doesn't become effective until Jan. 1, 1999.

Rep. James Talent, R-Mo., the chairman of the House Small Business Committee, says the change will benefit several million taxpayers with home offices.

### Home Work That Passes

By contrast, businesses that generate their income within the home office have no problem meeting the current IRS regulations. For example, Traci DeGroat of KTDID Marketing & Promotions in Manassas works from a home office that qualifies as a principal place of business. DeGroat, who has three small children, is a former corporate promotions manager who started her business in 1990 to better manage family and career.

"I'm very happy at home with my computer," says DeGroat. "Ninety-five percent of my business comes through contacts I've made serving on chamber of commerce committees, but I do all of the work at home." Her children, she adds, "spend 10 hours a week at day care. This is a serious business."

Similarly, anyone using a detached structure regularly and exclusively for a home-based business should have no problem claiming the home-office deduction. Many physicians and lawyers easily pass the test of meeting clients or patients in their offices.

### Areas Of Less Certainty

Although some types of home business present a clear case for a tax deduction, there are other occupations that, by their nature, can pose harder questions about deductibility. Accountant Brown cites the example of computer consultants who work on some projects exclusively in their home offices while other contracts require them to be at a client's place of business in an office provided for them.

"I tell my clients to keep a log of how many hours they spend in their home office versus on site with clients," says Brown. "There's no clear-cut rule on what proportion of time you must spend in your home office, but if a client is ever audited,

**"Keep a log" of hours spent in a home office.**

—Tax Accountant  
Karen F. Brown

at least he'll have documentation."

Another gray area is telecommuting. Growing numbers of employers are permitting employees to work from home at least part of the time. "In theory, employees as well as the self-employed can take the home-office deduction," says Brown. An employee, however, must show that his or her use of a home office is for the em-

ployer's convenience—a standard that "for years few if any employees could establish," Brown adds. Telecommuting presents "a classic case where technology and tax laws are not moving in sync," she says.

For those who do qualify for the home-office deduction, however, the tax savings can be considerable. Sandy Botkin, a for-

mer IRS attorney and president of the Tax Reduction Institute, a firm in Germantown, Md., that conducts tax research and education, estimates that the actual tax savings for a sole proprietor with a qualified home office in a \$150,000 home is about \$2,500 per year. That includes a proportionate share of costs such as mortgage interest or rent, depreciation, heat, electricity, cleaning, insurance, and security systems.

"Many people are afraid the home-office deduction will trigger an IRS audit," says Brown, "but if there's a tax deduction for which you are legitimately entitled—and you have the records to support the deduction—you should take it. If you don't, it's like walking into a store and volunteering to pay more for the merchandise." ■

*Gloria Gibbs Marullo is a CPA and business writer in South Bend, Ind.*

### HIRING

## Ignoring A Résumé Can Prove Costly

When hiring for key positions, some small-business owners simply glance at résumés, conduct brief interviews, then pick applicants without checking references thoroughly.

"This can be a serious mistake," says DeAnne Rosenberg, a Lexington, Mass., management consultant, "because most résumés these days are fluffed up and many contain outright lies." Overstate-

ments on a résumé can be costly for a company if a newly hired employee proves to be unsuited for the job and has to be let go.

Rosenberg, who counsels small firms on interviewing and hiring practices, says a résumé should be used only as a starting point for thoroughly checking an applicant's business, professional, and interpersonal skills and for determining if there

**Until it hired a reference-checking firm, Thomas Oberlin's filter-manufacturing company had high turnover among its hourly employees.**

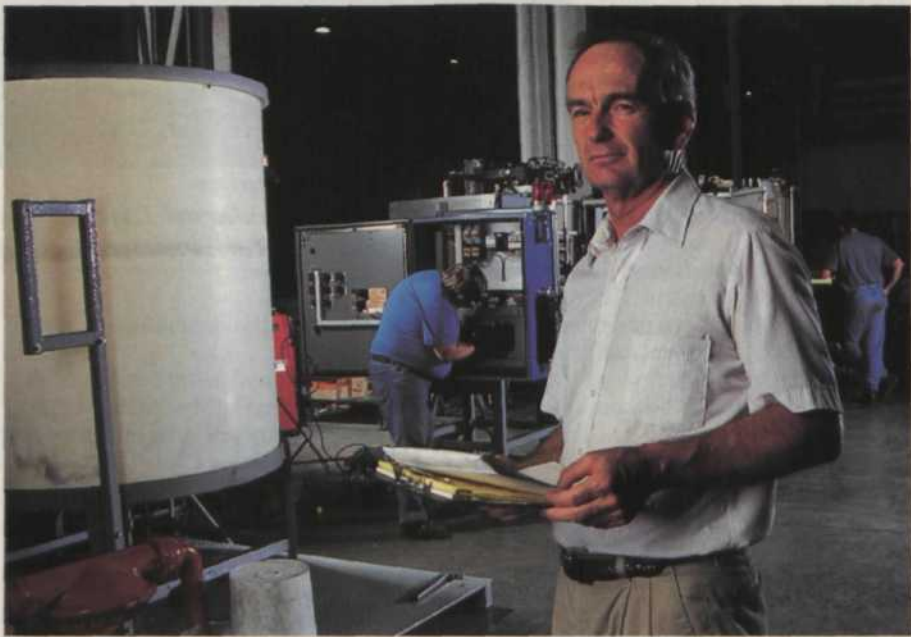


PHOTO: SHIRLEY ERICKSON

# FUTURE MARKETING

## Proven Solutions For The 21st Century

**Y**ou're talking with your customer, answering questions and describing your products. He wants to see some printed information. You scribble his name and address on an envelope, and put a brochure in the mail. A few days later, you remember the client, fumble for the address and your tickler file reminds you to call back and follow up.

"What do you think of my products? Did you get my brochure?" "No."

He never got it. It got lost in the mail, it came to the wrong office. He thought it was junk mail and trashed it. Maybe you forgot to send it. It doesn't matter what excuse you use, the fact is that you lost a sale. In the age of fax and e-mail, you might as well use courier pigeons as the post office. Yet mailing printed material is business as usual for most business owners.

What about fax technology? If the client asks for printed information, you take his fax number, drop papers in the fax hopper, and he gets your material right away. That's better, but it's still old-fashioned.

There is a smarter way to get information to prospects. Consider this: You give your client your special phone number. The system asks what information he wants and requests his fax number. He keys in his fax number and hangs up. A few seconds later the prospect gets your printed information along with a menu of additional options. The menu can say "Extension 101 is a product price list. Extension 102 has information on our financing plan, Extension 103 is the specifications on our deluxe model." The customer then calls back for more details Right Now. Your customers can get the information they want, right now, right in their fax machine, or the fax machine of their boss. And it happens NOW. That's how MarketFAX delivers information.

### A New Technology

MarketFAX is a new technology from Alternative Technology Corporation, Hastings-on-Hudson, N.Y. It combines new computer technology with voice cards, fax boards, and easy to use software to create a whole new type of information system. It's a better way to deliver information. It is instantaneous. It responds to your clients when their interest for your products are at a peak — *right when they first see your ad*. It gives your clients exactly what you want them to see. It's an entirely new service and it can work for you. It's easy for your clients to use, and changes how you get information into the hands of people who want it.

Here is an example: INC. Magazine planned to launch a new line of software products. Pressed for time, they chose MarketFAX to deliver a 10 question survey to customers from their in-house database. Using MarketFAX to tally the results, the survey quickly revealed that the market was willing to pay over 25% *higher* than what was originally projected. "MarketFAX enabled us to establish the precise price point for our software products..." said Jan Spiro, Director, Product Group, INC. Magazine.

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President & Founder Tom Kadala says "Savvy business owners are finding hundreds of new uses for this kind of fax response technology."

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## SMALL BUSINESS FINANCIAL ADVISER

are any potentially damaging secrets that have been covered up.

"I find most small-business owners don't thoroughly check applicants' references," says Peter E. Werra, who heads an executive-search firm in Waukesha, Wis., "because they are hard-pressed for time and don't know how to check what people write in their résumés."

Says Ed Pendergast, president of Symbus Technology, a software company in Waltham, Mass.: "We've had a number of applicants who claimed they had advanced degrees and they didn't, and if they lie about this, what else are they lying about?"

Hiring someone based on false claims in a résumé not only weakens a firm's work force but also can lead to costly legal action. Rosenberg cites an example: "A company hired a salesperson to drive around an extensive territory, and one day, while intoxicated, he seriously injured another person." The company is being sued, she says, "because the new employee was fired from his last three jobs for being drunk, and no one checked his references."

Résumé checking can cut down on employee turnover by weeding out applicants who would not work out well in a particular company. "Before we hired a professional reference-checking firm," says Thomas Oberlin, president of Oberlin Filter Corp., an industrial-filters manufacturer in Waukesha, "we had a high turnover rate among our hourly workers."

Like most small companies, Oberlin's firm doesn't have a human-resources department to check out job applicants. "We found that a professional interviewer and reference checker could save us a lot of money over the long haul," he says.

Fees for professional interviewing and reference checking typically run from \$250 to \$500 per applicant, depending on the type of job involved and the complexity of the research. "The fees usually pay for themselves by a wide margin," Werra says, "because it costs a lot of money to hire, train, and develop an employee, and if someone leaves within a year, you have to start all over."

Professional reference checkers can be found in the Yellow Pages under "Executive Search Consultants."

"It's a good idea to get references from each [reference-checking] firm you're considering," says Werra, "and then talk to their clients to see if they're satisfied with the screening work that was done."

—Peter Weaver

*The author is a free-lance business writer in Bethesda, Md.*

## INSURANCE

## It Pays To Review Travel Coverage

Do you think you need special insurance to cover theft or loss of a laptop computer, luggage, or credit cards when you're on a business trip?

You may already have more protection than you realize.

Most homeowner's and renter's insurance policies cover, within monetary limits, personal computers and other personally owned items for policyholders traveling anywhere in the world. The amount for which most policies will reimburse a victim is limited to 10 percent of the policy's personal-possessions coverage, less the policy deductible, says Jeanne M. Salvatore, a spokeswoman for the

so you can find them if you need to file a claim.

Concerning lost or stolen luggage, federal rules require that airlines reimburse passengers up to \$1,250 per person. Travelers who pay for their tickets with a credit card typically receive additional coverage from the card issuer at the time of the purchase. That coverage at least helps to bridge the gap between what the airlines pay and what the lost luggage and contents were worth. Check with your credit-card issuer to verify this enhancement.

In addition, your homeowner's or renter's insurance might take care of losses not covered by the airlines' reimbursement.

Under federal law, a credit-card holder is liable for up to \$50 of unauthorized charges for each lost or stolen card. And the limited liability typically is covered by homeowner's and renter's insurance policies for up to 10 cards, or \$500, regardless of the policy deductible.

Missing cards should be reported to the issuers within 24 hours, however. The issuers then block unauthorized

transactions, assign new account numbers, and issue replacement cards.

A person who would find it troublesome to record credit cards' account numbers and issuers' phone numbers—and also find it a hassle to notify card issuers directly if a card is lost or stolen—can buy a "protection plan" for those tasks, notes Frances Smith, executive director of Consumer Alert, a nonprofit organization in Washington, D.C., that promotes education and choice in consumer matters.

Companies offering such plans charge about \$25 a year to maintain a list of the client's credit-card accounts. A client who loses a credit card calls the plan sponsor, which in turn notifies the card issuers of the loss. To find a company that offers such a plan, contact a credit-card issuer.

—Hal Morris

*The author is a free-lance writer in Las Vegas.*



Insurance Information Institute in New York City. For example, \$50,000 worth of personal-property coverage typically translates into \$5,000 in theft or loss protection when you're away from home. Some policies limit coverage of computer equipment to \$5,000.

Coverage for items valued above that amount can be obtained through a personal-articles rider.

Reimbursements under homeowner's and renter's policies typically are based on the appraised value of lost or stolen items, not their purchase prices or replacement costs. Replacement-cost coverage is available, however, and can be purchased for items that depreciate rapidly, such as laptop computers. Replacement-cost coverage is about 10 percent more expensive than actual-cash-value coverage, says Salvatore.

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## SMALL BUSINESS FINANCIAL ADVISER

## INVESTING

# Are Savings Bonds Good Investments?

By Randy Myers

Few investments are less sexy than U.S. Savings Bonds. Sure, they outperform a passbook savings account, but you'll seldom hear anybody bragging about how they made a killing in Savings Bonds. It simply can't be done.

Yet Savings Bonds remain pervasive in our society. More than 55 million Americans, or approximately one of every five, own them. The question is, should they?

For anyone with a long-term investment goal, Savings Bonds may have little appeal because they greatly underperform other readily available investments, such as stocks and many mutual funds.

Investors purchase Savings Bonds, often through workplace payroll savings plans, at half their face value. Those issued since 1965 earn interest for 30 years, although most reach face value in less than half that time. For example, bonds issued today pay interest at a variable rate equal to 90 percent of the average rate on five-year Treasury notes, currently 5.68 percent. If that rate were to stay unchanged, today's bonds would reach face value in about 12 years.

Those who have invested in stocks, however, have fared better. From 1926 through 1996, for example, the Standard & Poor's 500-stock index earned an average of 10.7 percent annually, according to Ibbotson Associates, a Chicago-based research firm. Since 1976, it has earned an average of 15 percent annually.

Still, U.S. Savings Bonds do have appeal for some investors, particularly those whose foremost concern is protecting their principal. Savings Bonds are safe, since they're backed by the full faith and credit of the U.S. government. They're also free of state and local income taxes, and they allow for deferral of federal income taxes until the bonds are redeemed.

Also, interest on bonds purchased since Jan. 1, 1990, may be free of federal income taxes if a parent uses his or her bonds to fund a child's college tuition, provided the family's taxable income is below an inflation-indexed maximum. This year, full deductibility ends when income

reaches \$76,250 for a married couple filing a joint return, and it phases out completely at \$106,250.

## Getting Started

Let's suppose that you like the safety or the tax benefits that Savings Bonds offer, or that your parents insist on buying bonds for your children each year, and you need to make intelligent decisions about how long to keep the bonds. How can you

Kansas City, Mo.; Minneapolis; Pittsburgh; and Richmond, Va.

An easier solution—if you own a personal computer—is to buy a copy of the U.S. Savings Bond Consultant (\$59.95), a relatively new software program distributed through Union Information Services Inc. in Wall, N.J. (1-800-717-2663). This program can tell you (as it told me) almost everything you could possibly hope to know about your bonds, including their

current value (which may exceed the face value), the interest rate that has produced the bond's earnings to date, the current interest rate, the date when the bonds stop earning interest, and the date of the next interest posting.

The U.S. Treasury Department, which oversees the Savings Bond program, offers the Savings Bond Wizard—free software that is similar to, though more limited than, the U.S. Savings Bond Consultant. Savings Bond Wizard provides current values and current yields for bonds as well as other information. The program can be downloaded at Treasury's World Wide Web site, [www.publicdebt.treas.gov](http://www.publicdebt.treas.gov).

## Managing The Portfolio

Here are more tips for using Savings Bonds smartly:

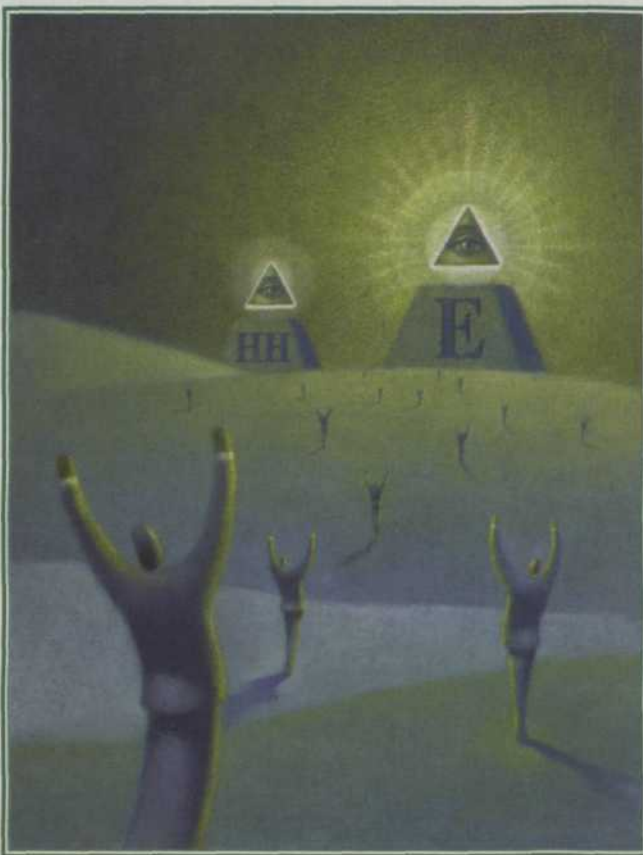
■ If your child owns Savings Bonds, file a federal tax return for him or her and declare the interest earned on the bonds annually. As long as the child's annual income remains below \$650 per year, he or she will owe no taxes

on the bond interest. And when they're older and the bonds have matured, they won't owe any federal income tax on them.

■ Cash in your Savings Bonds once they reach final maturity; they won't earn interest thereafter. Maturity dates are 30 years from date of issuance for all but Series E bonds issued before December 1965, which have a 40-year life.

You may not get rich by investing in U.S. Savings Bonds, but you won't go broke, either. By understanding how they work, you can use them to your maximum advantage. **NB**

Randy Myers is a financial writer in Dover, Pa.



manage your bond portfolio for maximum profits?

Until recently, it hasn't been easy. The government doesn't issue monthly statements telling us what our bonds currently are worth, their yield since purchase, or their current interest rate. (For the current rate, call the U.S. Savings Bonds Information Line, 1-800-487-2663.)

## The Search For Facts

Getting your hands on the information needed to determine such things as the value and yield of a Savings Bond can be difficult. One way to obtain such details is to call any of the five Federal Reserve banks that serve as Savings Bond centers. The banks that do so are in Buffalo, N.Y.;

## FINANCE

# A Source Of Funds In Search Of Work

By Juan Hovey

**P**icture this: You own a mature business that's profitable and growing, and you're certain that you could expand it even more if you had some capital. You can't get a bank loan because your net worth is tied up in bricks and mortar, leaving you with no liquidity for a personal guarantee.

You can't get venture capital or "angel" financing, either. Venture capitalists focus on start-ups; individuals known as financial angels generally invest in young companies with good track records, however brief.

What to do?

Find a PIG—a private investment group. PIGs may be the best-kept secret in small-business finance. If you want to expand your business, a PIG deal may be your ticket.

Private investment groups pool capital from pension funds, endowments, institutions, private investors, and entrepreneurs who have cashed out of their businesses. PIGs, also called private equity groups or buyout groups, are flush with money looking for work. Steven Galante, editor and publisher of *Private Equity Analyst*, a monthly newsletter in Wellesley, Mass., says PIGs raised about \$23 billion last year, compared with the \$10 billion raised by venture capitalists.

PIGs invest in mature businesses that have shown consistent profits for three to five years and that have good prospects for growth in expanding markets. These investment groups like small to midsize firms engaged in manufacturing or distribution but not retailing or services. In deals

starting at about \$1 million, they buy some or all of a company's stock and often raise additional cash in the form of loans from banks and institutional lenders such as insurers and commercial finance companies.

Typically, a PIG deal cashes out the business owner, who, having secured his or her personal future, stays on to expand the business, using the loan funds often

*Private investment groups may be the answer for established, profitable companies that seek expansion capital.*

generating \$30 million or less in annual revenues. His group has invested \$30 million in 15 companies in the past eight years.

"All of our money comes from private investors—100 percent of it," Shaughnessy says. "Our investors are all retired executives of Fortune 500 companies. But we're pretty unique."

Shaughnessy says that while most large



PHOTO: STOM SOBOLIN—BLACK STAR

**A first private-investment-group deal proved difficult, but a second made a happy man of AMSCO Sales Corp. co-founder Sheldon Osterweil, talking with employee Ed McDonald.**

brought to the deal by the PIG. As a rule, PIGs cash themselves out after five to seven years, either through a merger or by going public in a stock offering. They seek returns of 30 to 35 percent per year.

Because of their focus on young firms, venture capitalists and angel investors take on bigger risks, and consequently they want bigger returns—often 40 to 50 percent annually.

## Tapping Private Investors

Keith Shaughnessy, president of Boston Metapoint Partners, a private equity group in Peabody, Mass., specializes in businesses

buyout firms—those concentrating on companies with \$50 million or more in sales—raise their funds from college endowments, pension funds, banks, and other institutions, smaller investment groups generally tap other sources.

"When you get into small to midsize companies with \$10 million to \$50 million in sales, there aren't as many buyout firms in the market, and they tend to get their money from retired executives, family trusts, and wealthy professionals," he says. "That's where we like to play. We fly under the radar, where there's less competition."

Such groups invest in companies such as

*This story is part of a continuing series on ways that small companies can locate the financing they need to run their businesses.*

## FINANCE

AMSCO Sales Corp., a distributor of specialty industrial products in Fairfield, N.J. Sheldon Osterweil co-founded AMSCO in 1960 with several partners, one of whom held majority control. Osterweil has seen the company through two deals with private investment groups. The first occurred in 1990, when sales were \$17 million, and the second in 1996, when sales reached \$33 million.

The first deal involved \$1.2 million in investment capital plus \$4.8 million in loans raised by the investment group from Chase Manhattan Bank. The investors bought out the majority stockholder, who retired. Osterweil and his managers stayed on, retaining about 25 percent of AMSCO's stock. They had expected the investment group to raise additional cash for expansion, but because of the economic slowdown in 1990, the investors were unable to borrow. AMSCO was left with lots of debt and without capital for expansion.

"The deal was highly leveraged," Osterweil says. "Chase Manhattan had given the investors the bulk of the financing, and we had to pay that money back to the bank."

"We adjusted to the new investors, but it was difficult, especially with the debt."

In the second deal, a British group bought 100 percent of AMSCO's stock for \$8 million—enough to retire the debt, cash out all stockholders, and set AMSCO on an expansion path. In the year after the sale, AMSCO's revenues went to \$37 million, and Osterweil sees more growth ahead.

"When we did the second deal, the British group asked me how long I planned on staying," says Osterweil, who turns 59 in September. "I gave them three answers: seven or eight years if they made a commitment to expand the company, five years if they didn't, three years if the deal became reminiscent of our first."

But Osterweil is so happy with the second deal that he expects to stay on for the long haul. "It's going to be fun," he says.

#### Groups Of Many Sizes

Osterweil brokered his first deal through a mergers-and-acquisitions specialist, William J. Downey, president of Green Park International, Inc., in Port Washington, N.Y. Downey had met AMSCO's original majority stockholder at a seminar on exploring deals with private investment groups.

"PIGs come in many sizes, but because of the expenses and the time involved, plus their desire to get decent leverage, a transaction has to be [above a] minimum size,"

Downey adds. "The company should be worth [at least] \$10 million, and it's often easier to do a transaction with a \$30 million or \$40 million business. The investment itself can range from \$1 million on up."

Some groups bring only cash to the table, Downey says. Some also bring expertise, focusing on businesses familiar to their members, some of whom

take seats on the company's board.

Deals with private investment groups are generally put together and managed by specialists in mergers and acquisitions; many are veterans of

big investment-banking houses such as Morgan Stanley and Goldman Sachs.

#### Control And Costs

Private investment groups don't assume operating control even when they buy a controlling interest in a company, so good management is a crucial element in a deal. "The

cardinal rule is management in place that can grow the business profitably in a relatively short time," Downey says. "Many groups would prefer an A-plus management team in a B company over a B team in an A company."

Steven Elek, a partner in the Coopers & Lybrand accounting and consulting firm who runs its national corporate-finance practice out of Philadelphia, says investors want to see experienced management running a firm earning 15 to 20 percent a year—and able to earn 25 to 35 percent.

It takes six to 18 months to put together a deal, Elek says, and costs vary according to the complexity of the transaction. A \$10 million deal could cost \$340,000, including \$100,000 to \$200,000 for the mergers-and-acquisitions adviser, \$30,000 to \$100,000 in legal fees, and \$25,000 to \$40,000 in accounting fees.

"The key thing is to select appropriate advisers," Elek says. "You want people who have done numerous transactions in your own industry sector. They must understand the issues, have a good feel for potential buyers and for possible financing sources, and come to the table with technical expertise in structuring and valuing a deal."

Elek cautions that owners often have inflated notions of the value of their companies. "So it's important to have advisers with solid ideas for valuing the business," he says, adding, "You have to have realistic expectations."

NB

*Juan Hovey is a free-lance writer in Thousand Oaks, Calif.*

**"The key thing is to select appropriate advisers...people who have done numerous transactions."**

—Steven Elek, Coopers & Lybrand



## Putting Together A Deal

It takes digging to find the resources you need to do a private-investment-group deal. PIGs' reputations spread by word of mouth through a small number of mergers-and-acquisitions consultants nationwide, so you won't find the groups listed in your local phone book. But they're out there, and they want to do business.

*The Directory of Buyout Financing Sources*, an annual volume available for \$295 from Security Data Publishing, Inc., (40 W. 57th Street, 11th Floor, New York, N.Y. 10019; 212-765-5311) lists about 750 investment groups active in the United States, including PIGs, venture capitalists, and angel investors. The directory provides contact names and numbers, details capital under management, and specifies industry and geographic preferences, among other data.

You also need top-flight legal and accounting advice well beyond that of most

lawyers who draw up contracts and most accountants who audit books. And you must have an experienced mergers-and-acquisitions broker to negotiate your deal.

Most national accounting firms run corporate-finance practices to which your CPA can refer you. The legal help you need tends to be headquartered in big cities such as New York, Boston, Philadelphia, Chicago, San Francisco, and Los Angeles. Your lawyer can track down the names of three or four specialists for you.

The people who have the expertise you need generally know one another, so one contact leads to another, including a mergers-and-acquisitions broker—perhaps the most important member of your team. Keep digging until you find people with whom you can work. It takes up to 18 months to do a deal, and you will spend lots of time rubbing elbows with those involved. So get comfortable.



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## INSURANCE

# Costly Numbers In Workers' Comp

By Stephen Blakely

**W**hat's in a name? For machine-shop owner George Bartusek Sr., about \$75,000. That's the refund he recently received for workers' compensation insurance premiums after he fought for reclassification of his workers at Drill Rod and Tool Steels, Inc., in Franklin Park, Ill.

For years most of his 18 employees had been improperly classified as "iron and steel workers," Bartusek says. By persuading his insurance company to reclassify them more accurately as "precision machinery workers," he collected a decade's worth of premium overpayments.

That change, which took years of persistence and the help of a consultant, also cut Bartusek's annual bill for workers' compensation insurance almost in half.

"Iron and steel workers are the 'iron monkeys' who build skyscrapers. But we're a precision-grinding shop, with highly trained machinists doing very close-tolerance stuff," Bartusek says, explaining the radically different nature of the metal-working jobs. Some of his employees are "high-school kids wrapping boxes" as stock handlers, Bartusek says, and the wrong classification forced him to insure them at the same rate as "someone hanging off steel beams 40 stories above the ground."

Bartusek's experience demonstrates why all businesses, large and small, need to pay close attention to how their jobs are classified for workers' comp insurance. Under the workers' comp systems in all 50 states, each job is assigned a particular rating—and a particular premium—based on an estimated level of risk. Thus, companies can waste a lot of money if their workers are placed in an undeservedly high risk category.

Similarly, insurance costs will fall below their proper level if a company's workers

are assigned an unrealistically low risk category. Such mistakes can lead to a host of other problems that ultimately can jeopardize the financial underpinnings of a state's workers' compensation system.

One example of workers' comp underclassification came to light last November, after an explosion injured 14 employees at a munitions plant operated by Talon Manufacturing Inc. in Alpoca, W.Va. The

*Insurers' misclassification of workers can inflate a company's premiums, so owners should pay close attention.*

low risk category as employees at amusement parks and golf driving ranges.

If the company had been classified as "explosive manufacturing and operations," it would have had to pay the state an estimated \$1.25 million more in workers' comp insurance premiums since the start of its operations in West Virginia in 1992.

State officials attributed the misclassification to confusion over the company's initial application for workers' comp coverage.

The state subsequently created a new category—foundries and small-arms manufacturers—for Talon's workers, which raised the firm's annual premium by 39 percent.

Experts say underclassification is one of the reasons that West Virginia has a deficit of about \$2 billion in its workers' compensation fund.

"Misclassification is a problem that cuts both ways," says Ed Welch, an East Lansing, Mich., attorney and the author of *On Workers' Compensation*, a monthly newsletter. Business owners who ignore the issue "end up paying higher premiums," he says, while insurers who don't collect appropriate premiums "have to spread the loss among all employers."

## How Classifications Work

At its core, workers' compensation is a state-mandated, no-fault insurance system for workplace injuries and illnesses. By providing workers' comp coverage, employers are shielded from liability lawsuits filed by employees who suffer job-related injuries or illnesses.

In return, workers are assured of coverage for job-related injuries or illnesses—coverage that includes medical expenses, death benefits, partial recovery of lost wages, and vocational rehabilitation.

The fundamental concept that different jobs have different exposures to injury or illness led to the practice of classifying



PHOTO: ©TODD BUCHANAN

**Persistence** paid off in reduced workers' comp premiums for the precision-grinding shop owned by George Bartusek Sr., left. He examines work with son Jeffrey Bartusek, operations manager.

plant dismantles old military ammunition and recycles the gunpowder. But the state-run workers' compensation fund ranked the firm's workers in the same relatively

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## INSURANCE

workers according to risk. The classifications are the starting point for determining how much in insurance premiums a company will pay for each job.

Most job classifications are determined by the National Council on Compensation Insurance (NCCI) in Boca Raton, Fla. The council, established in 1923, is funded by insurance companies and acts as the industry's centralized rating bureau. The organization's classification system is used by 37 states and the District of Columbia, and it often influences the other states, which rely on independent rating bureaus or their own state-run classification system.

### Reflecting Differences

The NCCI's classification "bible," known as the *Scopes Manual*, is a highly specific description and rating of more than 700 types of jobs. The number of classifications has grown steadily as the workplace and the economy have evolved. Software programmers and computer-chip makers, for example, got their own classifications in 1992.

The NCCI constantly reviews and changes its manual "to identify those classifications that no longer seem viable and to create new classifications that may be needed," says David Cavanaugh, the NCCI's manager of product underwriting.

To arrive at an initial estimated premium, each type of job is given a classification code and a premium rate expressed in cost per \$100 of pay. For example, clerical workers (NCCI Job Code No. 8810) may be assessed 29 cents per \$100 of pay, while a driver (Job Code No. 7380) may be rated at \$7.61 per \$100 of pay. (In the above examples, a secretary earning \$20,000 would cost a company \$58 a year in estimated premiums, while a driver earning \$35,000 would cost \$2,663.50.)

Sawmill workers, miners, and roofers are among the highest-risk employees and thus have the highest premiums; office workers are among the lowest.

The initial estimated premium is then modified by the insurer or rating agency (depending on the state) to account for the employer's safety record and several other factors. These calculations determine a company's "total estimated premium" for the coming year and are spelled out in the premium statement.

At the end of the policy year, an auditor

for the underwriter examines the company's payroll to determine the final "audited premium," which is the amount the company ultimately pays to the state workers' comp fund or the private insurer, depending on the state.

In most states, businesses purchase workers' comp coverage through private insurers. Thirteen states have both state and private insurance funds. Six "monopoly" states (West Virginia is one) maintain exclusive control over workers' comp insurance.

The job-classification process typically begins when a company contacts an insur-

generally will send an inspector to examine the office or facility. Further appeals can draw in a rating-bureau reviewer.

The final arbiter is a state-level workers' compensation appeals board, consisting of representatives from business, labor, insurers, and state government.

Edward Priz, the workers' comp consultant who helped Bartusek of Drill Rod and Tool Steels win his full refund of excess premium payments, says the vast majority of job misclassifications result in higher rather than lower premiums. "Manufacturers and contractors in particular have a serious problem with classifications," says

Priz, a partner with Advanced Insurance Management Inc. of Riverside, Ill., and the author of *CompControl—The Secrets of Reducing Workers' Compensation Costs* (Oasis Press, \$19.95).

The NCCI's Cavanaugh says there are no reliable statistics to indicate whether most adjustments are higher or lower. "We have no motivation to go up or down in classifications," Cavanaugh says. "What we're interested in is a detailed description of the business and the business operation in order to come up with an accurate classification."

### Experience Modifiers

In addition to job classifications, the "experience modification factor" plays a big role in determining what a company pays for workers' comp. The experience modifier is the carrot-and-stick approach to workplace safety.

"You shouldn't have accidents at all. If you don't, you're rewarded" by the experience modifier, says Peter van Aartrijk, spokesman for the Independent Insurance Agents of America in Alexandria, Va. "If you do, you're penalized."

The "experience mod," as it is called in the insurance industry, is a numerical expression of a company's accident and injury record compared with the average for the firm's industry. An experience mod of 1.0 means a company has an average safety record, while an experience mod of 0.80, for example, means a company has a good safety record that merits a 20 percent discount. An experience mod of 1.20 means the firm's accident rate is above the industry norm and raises a company's costs by 20 percent.

A single accident—or even a notice of a workers' comp claim—can raise the experi-

## Premium Costs: One State's Examples

Estimated Workers' Comp Premiums  
Per \$100 Of Pay For Companies In Iowa



SOURCE: NATIONAL COUNCIL ON COMPENSATION INSURANCE

ance agent for general business coverage. Agents are knowledgeable about workers' comp requirements in their states and are often the ones who make the initial call on classifications based on the company's payroll, job descriptions, business operations, and workplace-safety experience. That information is later reviewed by the underwriter (a private insurer or state agency, depending on the state) or a rating bureau, which then sets the classifications and calculates the rates for the state where the jobs are located. Each state sets its own premium rates.

### Settling Disagreements

If a company disputes a job classification, the appeal process usually works its way through the agent to the underwriter, who

ence modifier, which in turn increases the premium. Insurers commonly create a "reserve fund" to cover anticipated claims, which raises premium costs for the insured company. The premium can be lowered later if the final claims are significantly less than the reserve fund.

Former insurance agent Bob Hereford, owner of Cumberland Consulting Co. in Waycross, Ga., specializes in helping companies win refunds of experience-modification fees. He describes one case in which an employee died at work of a heart attack, which later was ruled to be unrelated to the worker's job.

Because the worker's estate had indicated it would file a workers' comp claim, the insurance company created a \$70,000 reserve and raised the experience modifier. The reserve fund was never used, however, and Hereford won the company a refund of the reserve.

"Employers who don't check the accuracy of their experience ratings every year are in the same position as letting the IRS do their taxes," says Hereford. "The data that insurance companies use change every year."

#### Premium Fraud

Because workers' comp insurance can be costly, especially for companies in high-risk businesses or with bad safety records, some business owners are tempted to cheat. Deliberately misclassifying or underreporting the number of workers is considered "premium avoidance"—a felony.

"Classification fraud is one of those things that has lingered in the industry," says van Aartrijk of the insurance agents group. "But it will get discovered, especially if there's an injury."

Recently, for example, a CEO in Massachusetts received a 10-year prison sentence for defrauding the state workers' comp pool of \$4.2 million by deliberately concealing the true number of company employees and underreporting payroll to lower the company's workers' comp premium. It was the state's largest case of workers' comp fraud ever.

According to the Coalition Against Insurance Fraud, an insurance-industry group based in Washington, D.C., there are no reliable estimates of how much money is lost to workers' comp premium fraud. The major type of fraud in the workers' comp system, the coalition says, involves workers who file false injury claims to get out of work. Such false claims account for at least

\$3.5 billion a year in losses nationwide, according to the coalition.

Daniel Johnston, executive director of the Massachusetts Insurance Fraud Bureau, estimates that more than 80 percent of workers' comp fraud cases in his state involve false claims by workers, while less than 20 percent result from premium fraud by companies. Yet "the money involved is about equal," he says.

Johnston notes that companies can get tripped up in some unexpected ways if they try to avoid workers' comp premiums illegally. "We get a lot of help from the state workers' comp rating bureau," he says, "but also from labor unions or other companies that may have lost out on a bid."

**"Employers who don't check the accuracy of their experience ratings every year are in the same position as letting the IRS do their taxes."**

—Consultant Bob Hereford

#### Protecting Your Interests

Mistakes in classifying workers can arise simply because even the people who run workers' comp systems don't always understand them, according to Cumberland Consulting's Hereford.

"One of our biggest challenges is getting the insurance companies to understand the ratings and how they are properly applied."

How can employers ensure that their premiums are fair and accurate?

Experts recommend that business owners obtain a working knowledge of how their premiums are calculated, paying special attention to job classifications and experience modifiers. Workers' comp consultant Priz offers these suggestions:

- Do not assume that your job classifications are correct, especially if they haven't changed for a long time.

- Talk with a classifier in your state. Describe your operations in detail. Check the written descriptions of the job classifications. If your library doesn't have a current Scopes Manual or state classification list, your insurance agent can probably get you the necessary information.

- Check the premium rates, especially for alternative classifications, with your insurer or state workers' comp agency. There may be a fee for this information.

Business owner Bartusek, who won reimbursement of \$75,000 in overcharges, says he went to the local library to research the NCCI's job classifications and demanded a reinspection of his plant by the NCCI when the first review didn't satisfy him. "You have to be tenacious and sure of your facts," Bartusek says. "Don't take no for an answer the first time around."

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## MARKETING

# A Direct Route To Customers

By Dale D. Buss

If she's done it once, she's done it 458 times—literally. But on a sunny June evening in the flower-splashed back yard of a home in Menomonee Falls, Wis., Mary Adashek is using all her enthusiasm to demonstrate the patented peeler-slicer marketed by the company she represents, Pampered Chef.

Over a card table, Adashek uses the gee-whiz tool to prepare fresh apple rings, to spiral-slice fillings for pie, to ready apples for the dehydrator—even to peel potatoes and create curly fries.

"I wish I'd had this all the years I've been making apple pies," says one convinced customer among the half-dozen women who have accepted homeowner Laurie Barker's invitation to see Pampered Chef products and to socialize.

By the time Adashek is done for the evening and leaves for her home in nearby Cedarburg, she has sold about \$400 worth of gizmos, including the apple tool, clay "baking stones," and measuring cups with a plunger so butter won't stick to the inside. Add that amount to the more than \$250,000 in Pampered Chef sales she has rung up the past four years.

Adashek's earnings from the evening are about \$100, below her average of about \$125. But by arranging with hostesses to appear at about 10 such parties a month and by reaping commissions from other "sales consultants" she has helped establish, Adashek netted more than \$17,500 last year—"enough to pay the mortgage," she says.

And that doesn't count the free trips she gets: all-expense-paid sales-reward junkets that Adashek and her husband, a property manager, have taken to London, San Diego, Disney World, and Alaska. Hawaii beckons next year.

"The more people I share this with, the more benefits there are for myself, yes," says the 33-year-old Adashek, a former cardiovascular technician who likes to be able to stay home during the day with her 4-year-old daughter, Sarah. "But we also offer people a way to make life in the kitchen easier and more enjoyable. ... And people love these products!"

Indeed, as Adashek climbs the ladder of



PHOTO: SUZAN NEMKUS

By selling Pampered Chef kitchen products at home parties, Mary Adashek netted more than \$17,500 last year—"enough to pay the mortgage," she says.

success, she actually is doing a lot more than selling kitchen implements and enlarging the family budget: She's building her own micro-enterprise while promoting a business opportunity for other women. She is one of the more than 7 million Americans who work, mostly part time, as sales representatives for companies—such as Pampered Chef Inc., based in Addison, Ill.—that rely on multilevel marketing.

Such marketing—also known as MLM, direct selling, or network marketing—is being used by a growing number of companies to get their goods into the marketplace without the expenses of advertising or staffing a sales department.

Each MLM sales representative is, in effect, a business owner working as an independent contractor for a company that may

*Many firms now choose to distribute their products through representatives who sell one-on-one or through home parties.*

have few "real" employees. Reps earn commissions on their own sales. They also share commissions with the "upliners" who recruited them and manage them. And, in turn, they recruit and supervise salespeople, called "downliners," who learn from and share commissions with them. Low overhead, work-time flexibility, and lots of potential are all part of the allure.

## Cosmetics To Cookware

MLM is booming, with sales reaching an estimated \$18 billion in 1995, the latest year for which figures are available. That's up from about \$13 billion in 1991, according to the Direct Selling Association, a trade group in Washington, D.C.

To be sure, MLM has a highly notorious side. Some companies create a cult-

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## MARKETING

like environment, motivating sales reps to lean on friends and family to join them. Dozens of firms have been pursued by law-enforcement authorities amid allegations that the companies are using pyramid schemes—illegal scams in which large numbers of people at the bottom of the pyramid pay money that flows to a few people at the top. The illegal operations typically focus on recruiting downliners and sweeping in their sign-up fees rather than on selling products.

The legitimate MLM industry takes great pains to distance itself from these seamy pretenders.

More than 1,000 companies now use MLM as their primary distribution method, compared with fewer than 700 five years ago, the association says. Personal-care products such as cosmetics and jewelry accounted for about 39 percent of revenues in the direct-selling industry in 1995; home and family-care products, including cleaning solutions and cookware, made up 34 percent; services such as telephone long-distance plans accounted for 10 percent; vitamins, weight-loss products, and other health formulas, 9 percent; and books and educational and leisure products or services, 8 percent.

Home is the primary venue of operation, and personal relationships are the main vehicle. About 59 percent of MLM sales occur in homes, according to the Direct Selling Association; an additional 16 percent are made over the phone; 15 percent in the workplace; 5 percent at public events such as fairs; and 5 percent elsewhere.

### Two Approaches

In-person salesmanship is the common denominator, but MLM methodology falls into two basic camps: Two-thirds of the companies use individual, one-to-one selling, the association says, while one-third use the home-party method.

Many MLM companies strive to duplicate the accomplishments of renowned direct marketers such as Tupperware, the consumer-products company, Mary Kay, the cosmetics enterprise, and Amway, the home-care-products giant.

One company that takes the one-on-one

sales approach developed so successfully by Amway is Excel Communications Inc. Founded by Kenny Troutt in 1989, the Dallas-based provider of long-distance phone service grew from a \$20 million company four years ago to \$1.4 billion in revenues last year while it fielded an

rather let a relative or friend pocket sales commissions from their purchase if it's a purchase virtually everyone is going to make anyway.

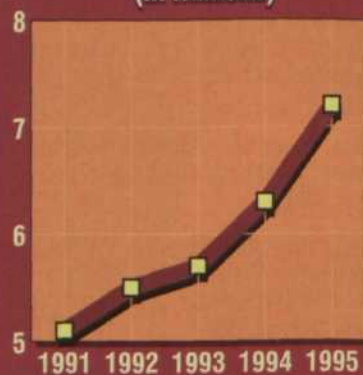
Troutt also correctly concluded that sales reps prefer not having to manage an inventory.

## Direct Selling's Steady Growth

Estimated U.S. Retail Sales  
(In Billions)



Number Of Sales Representatives  
(In Millions)



SOURCE: DIRECT SELLING ASSOCIATION

army of 979,000 independent sales reps. The company buys huge blocks of long-distance time from the big providers and resells it to consumers at very competitive prices. In May 1996, Excel went public as one of the New York Stock Exchange's youngest new listings ever.

A decade ago, when Troutt got into the business of reselling long-distance capacity—after holding jobs selling life insur-

the effectiveness of personal salesmanship.

"We believe that our products could be put in a health-food store or a grocery store and just sit there and really not do anything but gather dust unless people can demonstrate them, and talk to someone about what's in the product, and tell them why they should be taking the product," says Montgomery, who is president, chairman, and CEO of the Chesterfield, Mo.-based company.

Such "value-added" selling allows most MLM companies to price their goods higher than they could at retail, says Greg Martin, CEO of ShapeRite Concepts Ltd., another marketer of nutritional products. ShapeRite, based in Sandy, Utah, has more than 70,000 sales reps.

"You need a fairly adequate or hefty margin to be able to pay your distributors fairly for their efforts,"

says Martin, who founded the company in 1989 with an imported dietary supplement. Compensation for ShapeRite's reps amounts to 54 percent of sales revenue.

### Selling In A Social Gathering

Home-party companies, the other MLM camp, typically offer products whose sales are enhanced by the strong mar-

**"I wasn't thinking of making a business out of it. I was just looking to get out of the house a little bit and make some extra grocery money."**

—Heidi Proefrock,  
Regional Sales Manager,  
Longaberger Co.

ance and working in the construction and oil industries—he chose MLM without hesitation. Most Americans obviously knew how to use their phones, he reasoned, but "nobody really understood their rates, nobody really cared what company they were with."

As long as the price is right, he deduced, many phone customers would

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keting context provided by a social gathering of women.

Rhonda Anderson, a Montana homemaker, already knew from demonstrations she had given that her hobby of producing heirloom-quality albums for family photos was party-friendly and that it struck a strong emotional chord in her mostly female audiences. So when she and a friend, Minneapolis business woman Cheryl Lightle, decided to form a business, Creative Memories Inc., home parties seemed the right way to go.

Creative Memories mushroomed from six consultants and \$20,000 in sales in 1988 to more than 15,000 reps and \$40 million in sales last year. The company just completed a 30,000-square-foot headquarters building in St. Cloud, Minn.

The reason for this exponential growth is a "passion that is common in the consultants who stay with us," says Susan Lida-Pederson, vice president of promotion and communications. "You're not just selling [customers] a product or teaching them a skill, you're really contributing to a tradition they're starting, and it feels good."

"Unit managers"—those with several downliners—earn about \$25,000 to \$40,000 a year, Lida-Pederson says; a small number of managers earn \$60,000 to \$80,000; and the rare superstars break \$125,000. Some upliners do so well that they quit pitching at parties and spend all their time managing their corps of reps.

Longaberger Co., a Dresden, Ohio, manufacturer of baskets, ceramics, and other goods for the home, also benefits from the warm feelings that home parties generate. Last year its 38,000 reps across the country generated sales of more than \$500 million.

### Getting Out Of The House

As a regional sales manager for Longaberger, Heidi Proefrock is a certifiable MLM star and another weaver of the social fabric in homey Cedarburg, a Milwaukee suburb of 10,000 people.

Proefrock has steadily built her business from \$8,000 in annual revenues with just six downliners 11 years ago, when she was a part-time water-aerobics instructor, to \$40,000 to \$50,000 a year net and nearly 60 downliners in nine states.

The operation has grown so big that she is moving it out of the basket-bedecked restored farm home where she and her husband, Steve, a real-estate agent, live. She is relocating her business to an old schoolhouse nearby that she refurbished as an office.

"When I got started with this, I wasn't thinking of making a business out of it at

"It was all sort of learn-as-you-go," says Nemeth, a former teacher. "What I did have was this enormous, driving mission to get parents to understand that the right kinds of products, the right kinds of stimulation ... produce a significantly different child. I was not going into business for the sake of the business."

That kind of passion for a quality product or service—a commitment that is easily embraced by others—is the biggest predictor of success for an MLM company, practitioners say.

Successful and reputable MLM companies share a number of other attributes. Among them:

### They make it easy to get in.

Low barriers to entry are crucial to getting a strong flow of new reps. MLM companies rarely set education or experience requirements.

There's no commitment by the contractor to a specific tenure, and part-time work is the norm.

The average initial investment required of MLM consultants is only about \$100, according to the Direct Selling Association, and its members pledge to buy back at 90 cents on the dollar any resalable goods held by reps who want to

exit the business. If a company requires more than an initial small amount for a kit of product samples and other materials, the association says, it could be trying to boost its revenues by making contractors pay in advance for vast supplies of goods regardless of whether they have customers' orders for the products.

The required initial order for a new rep of Biogime International Inc., a Houston-based company that sells skin-care products via MLM, is just \$40.

And instead of asking new reps to place orders for a large inventory of skin creams that would have to be stored in a garage or basement, Biogime set up a toll-free telephone line for reps or their customers to call in their orders. The company then credits the rep with the amount of the sale and ships the goods



PHOTO: SPALDING HOWELL

**Sales representatives for Biogime International Inc., which markets skin-care products, don't have to make a big investment in inventory, says CEO and co-owner Julie Martin.**

all," says the 38-year-old mother of four. "Like most people, I was just looking to get out of the house a little bit and make some extra grocery money."

In fact, the hallmark of some of the most successful MLM companies is that the business aspect, at least initially, seems secondary to the participants' convictions about the good that they're doing.

Twenty years ago, for example, Lane Nemeth wanted to open a store to demonstrate educational toys. But because parents were her target, her husband suggested the Tupperware-party method. Someone else suggested that she reward people for recruiting. Now Discovery Toys, based in Martinez, Calif., has more than 30,000 reps, and it reached \$85 million in sales last year in the United States alone.

## MARKETING

directly to customers, who are billed directly.

"This way doesn't prevent distributors from having a good ongoing relationship with customers, but it stops them from having to invest in inventory and spend unnecessary time delivering products, which really is downtime," says Julie Martin, CEO and co-owner of Biogime. "You don't want people to regret their investment in your program."

### They make it attractive to stay on.

Most sales reps leave just as easily as they arrive. Turnover for some MLM companies is 100 percent a year.

Commissions, of course, greatly affect each company's turnover rate because they're the only form of compensation offered by nearly all MLM companies. While commission formulas range widely in the industry, consumables such as nutritional supplements generally carry lower percentage commissions than big-ticket items such as vacuum cleaners. The commissions that sales reps receive from downliners also vary greatly and can have a big impact on contractors' incomes.

To help stem departures and to build their reps into successful sellers, good MLM companies produce a wide stream of information for reps on the company's new products and services, sales techniques, and other topics.

The companies also offer regular and continual training sessions that are held one-on-one or at local, regional, or national gatherings.

Longaberger, for example, starts a new consultant with a kit containing printed, video, and audio information, including sample scripts for recruiting hostesses. The company sends out a monthly newsletter as well as a separate monthly publication that suggests product uses, and it hosts a three-day annual national convention, including a full day of training on sales and recruiting.

### The company aggressively discourages hyped claims about products and services.

As independent and largely unsupervised agents with strong incentives to attract downliners, MLM reps can be tempted to make unsubstantiated or even

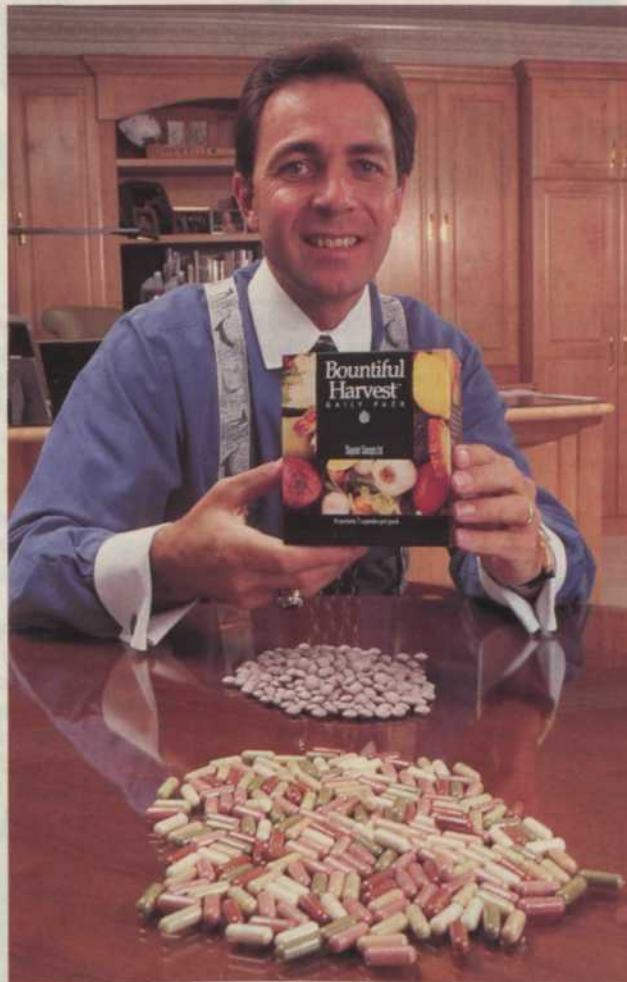


PHOTO: STEVE KELLY—BLACK STAR

The efforts of sales representatives allow for higher-than-retail pricing, says Greg Martin, CEO of ShapeRite Concepts Ltd., a marketer of nutritional products.

outlandish claims about their products, services, and incomes.

Companies such as ShapeRite and Reliv have to be especially vigilant in educating their distributors to ensure that they do not run afoul of recent federal regulations regarding health claims. These companies' training materials and newsletters make clear what distributors should not say when pitching products.

### The enterprise avoids fast-buck opportunists.

Because business opportunities can ebb and flow, some reps become what the industry calls "junkies" or "poster boys" who move from company to company trying to get in, and out, at the right times—often taking hundreds or even thousands of downliners with them.

"They're not for long-term companies," says Biogime's Martin. "They're a flash in the pan. It's a big problem in this industry."

### The company jealously protects its niche.

The most successful MLM companies quickly attract imitation products, often in conventional retail settings. Consequently, continued innovation in products and services is essential. It prompted Longaberger, for example, to add the ceramic bowls, wallpaper designs, and other housewares to its original focus on baskets.

And Creative Memories has acted assertively to protect its coattails, urging reps not to subscribe to, distribute, or promote a magazine produced by a firm that could become a competitor.

### The firm understands the awkwardness of working for an MLM company.

The biggest obstacle for sales reps—and, therefore, for MLM companies—is the fact that reps need to rely on family members and friends for sales, at least initially. Awkwardness often prevails in these social and personal interactions, and the best MLM companies help reps work through that problem—and refrain from pressuring them into feeling like they must turn everyone they know into a customer or a downliner.

"It requires that you commercialize noncommercial relationships," says Robert L. Fitzpatrick, an industry critic and author of a new book, *False Profits: Seeking Financial and Spiritual Deliverance in Multi-Level Marketing and Pyramid Schemes* (Herald Press, \$12.95). "It means that you will approach your son-in-law, your girlfriend, your wife, your brother-in-law, your next-door neighbor, your customers—you will invite people who perhaps you have a very different kind of relationship with based on trust, based on family, blood, love, nationalities, something—and you're going to convert that into a business relationship."

The best way for MLM companies to avoid the appearance of exploitation is to market a highly desirable, thoroughly genuine product or service with the utmost integrity—and to let it do its own "talking."

"We really are out there as a mission company which happens to have a wonderful learning opportunity," says Nemeth of Discovery Toys. "You'd never come to a Discovery Toys opportunity event and hear all about the people who got rich. You hear about all the parents who got helped." ■

## MARKETING

# Targeting Prospects With Direct Mail

By Howard Scott

**E**ver wonder if those direct-mail sales pitches you receive are really effective? Many are—as companies and marketing experts can attest.

Direct mail generated about \$390 billion in sales last year, according to Nicholas Diehl, spokesman for the Direct Marketing Association, a trade organization based in Washington, D.C. Sales figures for direct

Entrepreneur Webster Bull thought a lot about his ideal customer before launching his first direct-mail marketing campaign nine years ago. His two-person firm, Memories Unlimited in Beverly, Mass., writes family histories. He decided his ideal candidate had to have money and the time to reflect on life.

A Harvard University graduate, he examined alumni-profile studies at the Harvard Business School library and concluded he should focus on the school's graduates over 70. He bought his first Harvard Business School prospect list from a list company. He now sends mailings almost weekly to Harvard alumni.

**Get a list.** Finding a good list company often starts with the Yellow Pages under "Mailing Lists." List companies develop databases of names and offer customized list packages, such as private-school graduates in a particular area, consumers who buy from gourmet-food catalogs, or medical practices with revenue over a certain figure.

A good list company will discuss your needs with you, determine exactly what you are trying to accomplish, and design a customized list, says Jeff Johnson, a sales representative at A.A.C.S. Inc./Accudata America, a Cape Coral, Fla., list company.

The list company that you engage should deal with your type of customers—whether consumers or businesses—and have experience with your line of products.

Lists can be rented or purchased. First-time users should rent lists to try them out. Depending on the list user's specifications, a list rented for one-time use might cost \$50 to \$75 per thousand names, while a multiple-use list may cost \$25 per thousand names for each mailing.

A typical first-time mailing for a small firm is 3,000 to 5,000 names. A response rate of 2 to 3 percent on a direct-mail offer is considered good; 1 percent is average.

*These suggestions can help your company reach out to the right customers.*

Gary Allison, owner of Gazebo Craft, a Chicago firm that distributes gazebo kits, obtained a list that fell short of his target. It had 5,000 names of owners of homes valued at around \$250,000. Says Allison: "We obtained 2 percent inquiries that resulted in less than 1 percent sales. My next list will include only higher incomes and addresses in upscale communities. With this finer targeting, I hope to do better."

**Create a package offer.** The piece of mail—the mailer—that you send to a prospect should make an impact, but it need not be an expensive blockbuster. Says Horton: "Don't sell your product; sell a deal. Get right to the point. Avoid baloney. Be personal. Give the reason why the customer should respond. Make it easy to respond."

**Don't give up.** Chuck Wells, president of the Wells Insurance Agency in Palmyra, N.Y., says that when direct mail doesn't work for business owners, it's usually "because they don't stay with it." Wells sends identical postcards every other month for up to three years. He explains: "The first time, the customer might toss the mailer. But the third or fourth one, he might read. Then, when he has a problem with his agent—an unsatisfactory claim, high prices, a rude clerk, whatever—he'll call me when he gets the next postcard."

**Make changes as necessary.** Consultant Horton says that tinkering with a direct-mail formula over time is what produces success. Memories Unlimited, for example, improved its return when it began including testimonials in its mailings. Wells Insurance found that enclosing a reply card was less effective than simply including its phone number.

**T**otal costs of a 3,000-piece mailing would come to \$1,435, Horton estimates. List rental would be about \$225, he says; printing, \$550; design and typesetting, \$150; and bulk-mail charges, \$510.

But if you follow the experts' suggestions, you could find such outlays to be money well spent. **18**



ILLUSTRATION: GEORGIA LEIGH MCDONALD

mail are expanding, he says, at an annual rate of 7.1 percent in the consumer market and 10.3 percent in the business-to-business market. Direct mail accounts for 14 percent, or \$34.6 billion, of advertising expenditures in the United States, says Diehl.

Here are experts' suggestions for firms considering direct mail as a marketing tool:

**Develop a plan.** John Horton, president of Horton Associates, a Providence, R.I., direct-mail consultant, says a business owner should start by describing the company's ideal customer: "Ask what motivates the individual. What are his buying habits? Income level? Age? Work? What makes him buy from you? If you don't have your customer down right, you'll never obtain a high-enough response rate."

*Howard Scott is a business writer in Pembroke, Mass.*

## ECONOMIC DEVELOPMENT

# Closed Bases, Open Doors

By Steve Bates

In 1993, when the federal government announced that it would close the 1,600-acre Charleston Naval Complex in South Carolina, many business people, politicians, and other local residents envisioned their world crumbling. The news that 6,000 jobs and a massive amount of related business would be lost "hit the Southern city like a bombshell," says Ben Cole, president and CEO of the Charleston Regional Development Alliance.

Two area business men who frequently did manufacturing and repair work for the Navy installation sat down in a restaurant one evening to assess not only their futures but the region's as well. "We said: What's the button to make this place work?" recalls Richard Gregory.

Instead of seeing empty dry docks and rows of aging buildings with peeling gray paint, Gregory pictured a bustling complex where large industrial equipment would be made and repaired—even though such a business would be vastly larger than his current one.

His soon-to-be partner, Danny Rowland, recalls looking at Gregory and saying, "You're crazy." But Gregory would not relent: "Who's better suited to do this [than us]?" he asked.

Four years and \$5 million worth of capital investments later, the two watch their leased blue-and-yellow cranes—huge machines once operated by Navy workers—move tons of equipment across docks and into their leased buildings adjacent to piers at the heart of the former base.

Several businesses have followed, providing technical assistance to Charleston Marine and Manufacturing Corp., a

consortium formed by Gregory, Rowland, and another business owner. Other, unrelated firms have set up shop on the property since the Navy completed its departure early last year.

The companies were attracted by the ample space, excellent location, and existing equipment, and they were recruited through an aggressive push by the regional development agency to revitalize the former base.

More than 2,400 jobs have been created on the installation, and surrounding counties also have experienced rapid economic development.

*Scores of closed military installations nationwide are offering business people affordable room to grow their enterprises.*

Charleston is breathing new life into an old military base, turning a potential loss into a gain. But it is not alone. Across the country, at a majority of the roughly 115 major bases that have closed in the past decade, business people are finding attractive niches to establish or expand enterprises. And the best is yet to come, say officials of the federal government, officials of base-redevelopment agencies, and business people.

"It's a significant source of opportunity to business. And it's only likely to get riper in the next two to three years" as more bases recently identified for deactivation

open their doors to entrepreneurs, says John H. Alschuler Jr. of the New York City office of Hamilton, Rabinovitz & Alschuler, Inc., a consultant to several base-redevelopment agencies.

## Impact In All Regions

Four rounds of base closings—announced in 1988, 1991, 1993, and 1995—and other actions by the Pentagon have reduced the ranks of active-duty U.S. military personnel by about 600,000 in the past decade.

No region of the country has been spared by the downsizing. Thirty-two states have lost at least one major base, with California giving up two dozen.

There are plenty of opportunities for renovation on installations recently deactivated, at locations across the country. For the most part, local rede-

**Measuring metal plates for thickness, Richard Grumbine, left, and Frank Gallo of Applied Technical Services, Inc., check out a NASA vessel at the Charleston, S.C., shipyard.**



PHOTO: T. MICHAEL KEZA

## ECONOMIC DEVELOPMENT

velopment agencies—set up by locally elected officials and the military branches—are responsible for finding new uses for installations that the Defense Department has decided to vacate.

Some communities have moved aggressively to obtain government approval to issue short-term leases to businesses—sometimes years before the local agency gets a deed to base property and sells parcels or leases them for longer terms.

"We don't sit around and paint pretty pictures and wait for Walt Disney to come in," says Jack Sprott, executive director of the Charleston Naval Complex Redevelopment Authority, which focuses on the base property while the Charleston Regional Development Alliance markets sites across the region.

#### Unheralded Opportunities

Former bases such as Charleston's are providing a wealth of opportunities for businesses—particularly start-ups and small, growing enterprises. Some base-redevelopment agencies are structuring deals to give

companies free rent for a year or two if they sign a five-year lease.

But there is risk. Some tenants pay the same rent they would pay for a similar property off base, and few have a guarantee that their lease will be renewed after the Defense Department sells the land to the local authority. Nonetheless, many such redevelopment agencies boast about how many jobs they have created, and they want companies that will stay and grow.

Still, few entrepreneurs are aware of the opportunities that exist on closed defense bases near them, says Brad Arvin, president of the National Association of Installation Developers (NAID), an organization based in Washington, D.C., that is trying to spread the word.

"It's a tremendous opportunity for small business," says Arvin. "Tell us what you're looking for."

Arvin and others involved with base redevelopment say that properties are

available now on more than half of the major bases identified for closure in the past decade. They point out that the military might turn over various parts of a single base to the local redevelopment agency over a span of as long as 10 years and that some rural or heavily polluted properties won't be put to new uses for 20 years.

Arvin and the others add, however, that the time between the announcement of a base closing and the availability of the property for redevelopment is shrinking as military and local officials learn from the experiences in the first rounds of closings.

"Everyone is really catching on [to] how to do it," says Charles S. "Sid" Saunders, who runs the redevelopment agency at the former Indiana Army Ammunition Plant in Charlestown, Ind.

"For small businesses—especially ones in manufacturing—[a former base] can be almost an ideal setting," says Michael Closson, executive director of the Center for Economic Conversion, a nonprofit group in Mountain View, Calif.

Doug Hinson, whose company, Excel Apparatus, repairs motors and other heavy equipment, lost 70 percent of his business when the Charleston shipyard closed. Rather than fold his tent, he moved from a location near the base to one in its heart.

Instead of the 12,000 square feet of space

**"It's a tremendous opportunity for small business. Tell us what you're looking for."**

—Brad Arvin,  
National Association of  
Installation Developers

## Sources Of Further Information

These organizations can provide general information about business opportunities on former military bases:

■ **National Association of Installation Developers**, 1730 K Street, N.W., Suite 700, Washington, D.C. 20006; (202) 822-5256.

■ **Air Force Base Conversion Agency**, 1700 N. Moore St., Suite 2300, Arlington, Va. 22209; (703) 696-5501.

■ **Army Base Realignment and Closure Office**, 600 Army Pentagon, Washington, D.C. 20310; (703) 325-0480.

■ **Navy Base Closure Office**, 200 Stovall St., Alexandria, Va. 22332; (703) 325-0480.

Following are some recently closed military bases where businesses can lease or purchase buildings and/or land. Each base's former name, listed in boldface type, is followed by the name, address, and phone number of the agency responsible for reuse or redevelopment. Some are offering primarily short-term leases; rent ranges from negligible charges to full market rates.

### ARIZONA

#### Williams Air Force Base

Williams Gateway Airport  
6001 South Power Road, Building 41  
Mesa, Ariz. 85206  
(602) 998-1013

### ARKANSAS

#### Eaker Air Force Base

Arkansas Aeroplex  
P.O. Box 166  
Blytheville, Ark. 72316  
(870) 532-2100

### CALIFORNIA

#### Alameda Naval Air Station

Alameda Reuse/Redevelopment Authority  
Postal Directory, Building 90  
Alameda, Calif. 94501  
(510) 864-3406

#### Castle Air Force Base

Castle Joint Powers Authority  
3450 C Street  
Atwater, Calif. 95301  
(209) 384-7325

### COLORADO

#### Lowry Air Force Base

Lowry Business Center  
555 Uinta Way  
Denver, Colo. 80220  
(303) 343-0276

### CONNECTICUT

#### Naval Undersea War Center

Thames Research & Development Center  
City of New London  
181 State St.  
New London, Conn. 06320  
(860) 447-5270

### FLORIDA

#### Cecil Field Naval Air Station

Cecil Business Park  
400 City Hall  
220 E. Bay St.  
Jacksonville, Fla. 32202  
(904) 630-4787

### ILLINOIS

#### Glenview Naval Air Station

Glenview NAS Redevelopment Project  
2800 Admiral Ewen Drive  
Glenview, Ill. 60025  
(847) 998-9500

he was in, he now has 75,000. Instead of a crane with a 15-ton capacity, his company can now handle 35 tons. In the past six months, Excel has grown from 23 to 33 workers and has diversified its client roster.

His location gives the company valuable exposure, attracting business from people who are familiar with the site and its large, powerful equipment. Without the closing of the installation, "we would never have dreamed of the opportunity to come up with something like this," Hinson says.

Nearby, Richard Grumbine's Applied Technical Services, Inc., office is going through a similar expansion. A branch of an Atlanta-based company, Applied does engineering consulting, testing, and inspection work, including highly precise testing of engineering equipment used by a variety of businesses.

Grumbine, a regional manager for the



**Rebounding nicely**, a closed Air Force base in Limestone, Maine, hosts Championship Sports Flooring's Robert Watson, front, and Roddy Theriault, who make portable basketball floors.

the installation and the surrounding community are not just surviving but thriving. After years of relying on the military, "Charleston needed to evolve into an industrial type of atmosphere" with a more diversified economic base, says Grumbine.

#### Good Plans—And Some Luck

In their use of closed bases, some business people have virtually stumbled upon opportunities they never would have imagined. At the Indiana Army Ammunition Plant, an 8,000-acre spread less than 10 miles from Louisville, Ky., the base-redevelopment agency renamed the plant "Facility One" after the base closed in

1993 to reduce any stigma associated with weapons or lost jobs. Signs were posted on perimeter fences urging business people to investigate the property, and an open house was held.

A laundry-firm owner toured a



#### INDIANA

##### Grissom Air Force Base

Grissom Aeroplex  
1525 W. Hoosier Blvd.  
Peru, Ind. 46970  
(317) 689-0159

##### Indiana Army Ammunition Plant

Facility One  
11452 Highway 62  
Charlestown, Ind. 47111  
(812) 284-7908

#### LOUISIANA

##### England Air Force Base

England Economic and Industrial  
Development District  
1611 Arnold Drive  
Alexandria, La. 71303  
(318) 449-3504

#### MAINE

##### Loring Air Force Base

Loring Commerce Centre  
P.O. Box 457  
Limestone, Maine 04750  
(207) 328-7005

#### MICHIGAN

##### K.I. Sawyer Air Force Base

Marquette County Development  
Department  
417 A Avenue  
Gwinn, Mich. 49841  
(906) 346-3137

##### Wurtsmith Air Force Base

Oscoda Office of Economic Adjustment  
5700 N. Georgia  
Oscoda, Mich. 48750  
(517) 739-6999

#### NEW HAMPSHIRE

##### Pease Air Force Base

Pease Development Authority  
360 Corporate Drive  
Portsmouth, N.H. 03801  
(603) 433-6088

#### NEW YORK

##### Griffiss Air Force Base

Griffiss Business & Technology Park  
Oneida County EDGE  
153 Brooks Road  
Rome, N.Y. 13441  
(315) 338-0393

#### SOUTH CAROLINA

##### Charleston Naval Base Complex

Charleston Naval Complex  
Redevelopment Authority  
1690 Turnbull Ave., Suite NH-47  
Charleston, S.C. 29405  
(803) 747-0010

#### TENNESSEE

##### Volunteer Army Ammunition Plant

The Volunteer Site  
6703 Bonny Oaks Drive  
Chattanooga, Tenn. 37421  
(423) 855-7256

#### TEXAS

##### Chase Field Naval Air Station

Beeville/Bee County Redevelopment  
Council  
400 N. Washington  
Beeville, Texas 78102  
(512) 358-2023

## ECONOMIC DEVELOPMENT

building filled with rows of idle sewing machines that once were used to stitch propelling charges for 155mm howitzers. Before long the man was importing fabric and assembling clothing on the site. Other tenants include a pickle packer who expects sales to top \$1.5 million this year and a small firm that makes costumes for Elvis impersonators.

Says the redevelopment agency's Saunders: "You can start out with a room. We've got offices with desks and chairs." Rent is negotiable, he notes. "You pay as you grow."

#### Remote But Marketable

Such deals have been particularly important in remote areas. One of the most daunting redevelopment challenges emerged in Limestone, Maine, at the former Loring Air Force Base, which was vacated in 1994. Tucked against the Canadian border in the northeastern corner of the state, the 8,700 acres weren't in high demand.

The loss of more than 5,500 military and civilian jobs on the base was "devastating" to the community, notes Brian Hamel, president of the local redevelopment authority. After lobbying and congressional action, the Air Force donated the Loring base to Hamel's agency, which rechristened it the Loring Commerce Centre.

One of the earliest tenants was Championship Sports Flooring, which makes portable basketball floors for the Boston Celtics and other customers. At first, "I didn't have a clue" about what the huge base could offer business people, says CEO Gregor Hargrove. After moving into a 107,000-square-foot warehouse—with free rent for the first year—Hargrove has this opinion about the base:

"It's a gold mine."

Base redevelopment has not been wildly successful everywhere. At the former Eaker Air Force Base in Blytheville, Ark., officials realistically expect to re-

cover about one-third of the 4,200 jobs lost when the military left in 1992.

But Joe Gurley, executive director of the installation, now called the Arkansas Aeroplex, says the base's infrastructure is in good shape and the few hundred workers who recently arrived represent "a step in the right direction."

George R. Schlossberg, a partner in a Washington, D.C., law firm, Kutak Rock, who specializes in base-closure matters, says the large number of base-redevelopment organizations seeking tenants can give business people leverage in lease negotiations. "There is competition among bases. Milk it," he advises.

For Richard Gregory and Danny Rowland, trading their modestly sized businesses off base for a bigger enterprise on the Charleston military installation was a gamble that required patience and persistence. But neither man has regrets. They received so much encouragement from the community—including many people they have known for decades—that "it came to be a community deal. It became a personal commitment," says Rowland.

He adds: "We're real proud of what we've done."

NB

### Competition among base-redevelopment agencies seeking tenants gives small firms leverage in lease negotiations.

—George R. Schlossberg,  
Lawyer And Base-Closure  
Specialist

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## MANAGING

# Building A Healthy Company Culture

By Michael Barrier

Since Bob Johnstone founded Napa Printing & Graphics Center in Napa, Calif., 16 years ago, the company has endured several floods. When the waters rose in 1986, he recalls, "the employee attitude basically was, 'Give me a call when you get the place cleaned up.' There was very little assistance."

In March 1995, though, when Napa Printing was virtually wiped out—almost all the furnishings and equipment were destroyed, with losses totaling more than \$300,000, most of it not covered by insurance—the employees' reaction was very different.

Even though Johnstone was forced to lay off everyone, "they all came back on their own time and worked day and night," he says, "tearing stuff out and cleaning up. The press operators tore their presses down and took the motors in to have them rebuilt. Spouses came in and helped." Johnstone was rehiring within two weeks, and in six weeks he had rehired all but two of his 14 employees.

"If the employees had said, 'See you later,' I could easily have been discouraged to the point of bailing out," he says. "Their support made a huge difference." In April 1995, just after the flood, Napa Printing had its biggest month in history. The year as a whole also set a record; then, in 1996, Napa Printing saw a 31 percent increase in revenues.

What had occurred in the years following the 1986 flood was a transformation of the company's culture. Its employees, who once saw themselves as distinct from the company and their co-workers, saw themselves as part of a team. So impressive was the change that it led to Napa Printing's being named a Blue Chip Enterprise earlier this year. The Blue Chip program is an annual competition co-sponsored by Massachusetts Mutual Life Insurance Co. (also known as MassMutual—The Blue Chip Company), the U.S. Chamber of Commerce, *Nation's Business*, and "First Business," the Chamber's syndicated morning business-news television program.

Every company has a culture, a set of values that govern how its owners and employees conduct themselves. That culture may or may not translate into a common effort, from top to bottom. In many companies, it doesn't, because the culture is authoritarian; employees simply do what their bosses tell them, and no more.

*It can bring out the best in your employees—and maybe even save your firm's life.*

figure out what needs to be done and then get everybody to do it." The problem is, he says, "a culture is not just one thing. It's millions of things"—all the components of a company's daily activities, far too many for one person to understand or control.

"In a fast-changing world," Lefkoe says, "there's an alternative that, more often



PHOTO: T. MICHAEL KEZA

**A healthy culture** should be encouraged as a "natural process," not forced into existence, says Arjun Rishi, CEO of Vastera, a software firm in Chantilly, Va.

Such a culture may even breed success when a company is very small and its founder is pursuing a brilliant idea with single-minded zeal. But an entrepreneur's style—so often autocratic—can easily become "dysfunctional" as a business grows larger, warns Barry Phegan, a Berkeley, Calif., consultant and the author of *Developing Your Company Culture: The Joy of Leadership* (Context Press, \$12.95).

Morty Lefkoe, head of a consulting firm, the Decision Maker Institute in Westport, Conn., and the author of *Re-create Your Life* (Andrews & McMeel, \$22.95), says that "most CEOs believe that their job is to

than not, will be more effective: Get everybody else in the organization to do your job, while you create an environment so that they can do it."

It was just such a participatory culture that Johnstone tried to create at Napa Printing with the help of Napa-based consultant Bill Truby, who shepherded the employees through training at intervals spread over six months. Learning how to work as a team was especially important.

"In a company like this," Johnstone says, "the work flow is very erratic, and it's very common to have one department overbooked and a couple of others under-

## MANAGING

booked. You have to have clear handoffs, and you have to communicate well, and you have to have the willingness to help."

For his part, Johnstone had to relax his grip on the company and let his newly trained employees assume more responsibility; as he says, he had to accept "that not everyone was going to make the same decision I would."

Johnstone "let go, with fear and trembling," Truby says, "and within a month and a half he was able to go on a two-week vacation. The place ran perfectly; every person was on time every day. Trust begat trust."

Now, Johnstone says, he sees evidence of a team-based culture "all the time: I see customer-service people in pre-press, pasting up a job; or I'll see the pre-press people answering the phone because they can see that the customer-service people have a line of people waiting to talk to them."

At some firms, employee involvement is more than a concept for improving the service that customers get; as Gerald L. Davis says of his Denver-based company, DSM Manufacturing, employee involvement "is what we provide to our customers."

DSM—another firm that was designated a Blue Chip Enterprise this year—is a contract manufacturer of electronics hardware; its customers come to it with the specifications for the parts they want. Typically, parts go straight to a customer's assembly line; there's no inspection once the parts leave DSM. Davis says: "Our customers count on us to make sure that the parts are correct. For that service, they pay us a premium."

That means, he says, that DSM's 60 employees "all must do their jobs in a highly self-motivated manner. If they didn't have a definite sense of ownership for every part that goes out the door, I'd have a real problem."

As DSM's example indicates, developing a healthy company culture is not simply a "feel-good" exercise that can be scrapped when the company needs to get serious about making money. Says Lefkoe: "When people have the sense that they're doing something worthwhile, they're making a contribution, you get a level of commitment and productivity and quality that goes beyond anything" that can be stimulated through compensation plans or in any other way.

**S**o you own a small business and you want to nourish a company culture in which everyone cares about the company as much as you do. How should you go about it? The answer will vary with each company, with the nature of its employees and the demands on them.

At Vastera, for example, a five-year-old firm in Chantilly, Va., that provides software and services for international trade, almost all of the 100 staff members are college graduates; many have postgraduate degrees. At a company like his, says Arjun Rishi, president and CEO, developing a healthy culture through "a natural process" is far more effective than trying to force one into existence through slogans and posters and the like.

Because of the demands of the software industry, employees may have to work long hours for several weeks at a time. What he

"I never suggest training to my clients," says consultant Phegan. "Training reinforces the idea that people have problems or people are incompetent." He prefers a simpler approach that brings employees into decision making that would have been the manager's preserve alone.

Lefkoe believes that training is always necessary "to some extent. People do know how to do a lot more than they're given credit for, but if you're going to eliminate middle management" and assign to teams the tasks that those managers used to do, some training will be unavoidable.

It all depends on the company.

Most of DSM's employees are not college graduates; training in everything from reading and mathematics to history is correspondingly more important. Unlike Napa Printing, DSM hasn't trained its employees specifically in teamwork, although several years ago Davis devoted a series of shop meetings to setting up cross-functional teams to solve specific problems.

Given that every company is different and every company's path to a healthy culture will differ accordingly, there are still a few principles that will apply in most cases:

#### Change has to start at the top.

The leader of the company has to let go, and the employees—acting as a team—have to grab hold. "If the CEO doesn't want to change," Lefkoe says, "I have no idea how to make a culture change, even if 90 percent of the [employees] are for it."

#### Think about your culture when you're hiring.

Cross-functional teams are central to the successful development of software, Rishi says. "If you get in a situation where one person in a team is being disruptive, it impacts not just that team but folks in other areas also. That's why it's critical, when you're making a hiring decision, that the culture fits"—that new hires are receptive to working in teams.

#### Two-way communication is critical.

Talking realistically about your weaknesses and encouraging employees to help solve them is one way to build a sense of participation.

"We hold sessions with the emphasis on how we ought to be communicating and what's lacking," Rishi says. "If, as an organization, you're constantly looking at what's missing, I think people appreciate that, because they know then that the organization is working at getting those things corrected. If what they're hearing from senior man-



PHOTO: LINDA SUE SCOTT

Napa Printing's president, Bob Johnstone, left, and Jeff Gerlomes, vice president, saw employee attitudes improve.

wants, Rishi says, is "an environment where people automatically want to do that because they feel that they're making a tremendous contribution to the organization." Company activities involving families are thus particularly important, he says, because employees so often must sacrifice time with their families. "We want them to understand that we do appreciate that."

On the other hand, training of the kind that was so effective at Napa Printing has played no part in Vastera's rapid growth (the work force has tripled in the past year). There's disagreement even among experts about how important such training may be.

agement is that everything's OK, and they don't believe it is, you've got an issue on your hands."

#### If you don't believe in it, don't fake it.

However obvious the virtues of a healthy company culture, "some owners will try for it and not like what they find," Truby says, "and either sabotage it or go backward."

He cites the case of a San Francisco business man "who spent tons of money trying to train his people to become leaders, managers—to be teams, to grow. To use a family analogy, he was bringing people from infancy up to adolescence, and then those adolescents wanted to fly, and he wouldn't let them. He was too insecure to let them. So he didn't let go; he didn't like what he saw. He actually lost about half his staff and replaced them with 'children' again."

Business owners who prefer an authoritarian culture may have to get used to see-

ing other companies passing them by, says Truby. "In America, we've grown up. Most people want to be respected—they don't want to be treated as children anymore. The thinking person doesn't want to walk through those glass doors and be told what to do. What they want is shared ownership—emotional ownership."

**"The thinking person doesn't want to walk through those glass doors and be told what to do. What they want is ... emotional ownership."**

—Consultant Bill Truby

**A**s firms grow "more open and participative and engaging," Phegan says, "they start to step ahead of the competition, sometimes very dramatically." For example, DSM's revenues have doubled, to \$5 million, in just two years; the 60 employees likewise represent a doubling of the work force.

Determining how much a more participatory culture contributes to such financial results may be difficult, but to people running such businesses, the connection is clear. Johnstone says the \$12,000 he spent on the training provided by Truby "was the best investment I've ever made—no contest." **■**

## Study Sheds Light On A Missing Link

Firms whose employees really care about the company and their work "simply become more competitive," says consultant Barry Phegan. But data linking that kind of company culture to successful performance has not been plentiful. A recently published benchmarking study, *Service in the U.S.*, fills some of the gap.

The study was based on extensive interviews at 181 U.S. service companies, almost half of them with fewer than 500 employees. The idea was to learn which service practices U.S. executives considered most important and which service companies they thought were exemplars.

"Service companies are notoriously poor at benchmarking outside their industries," says Richard B. Chase of the Marshall School of Business at the University of Southern California. He co-wrote the study with two other professors, Aleda V. Roth of the Kenan-Flagler Business School at the University of North Carolina and Chris Voss of the London Business School.

The study's authors identified 55 factors as contributing to excellent services, and the survey's respondents emphasized practices that reflect a healthy company culture. Second on the list (after "accessi-

bility"—that is, being available to the customer) was openness to employees; not far below was effective employee handling of service failures.

There is often a lag between recognizing the value of such practices and actually putting them to use, the study's authors say. "For example, openness to employee ideas is proclaimed, but not actively encouraged," and empowering employees to remedy service failures may come long after recognizing the need for such empowerment. But the companies identified in the survey as "global leaders" in service do everything well.

At such companies, Chase says, "each job is linked in some way to every other job"—or, to put it another way, employees have an awareness of how their performance affects the company as a whole. It's just that sort of awareness that a good company culture encourages.

The survey was sponsored by Severn Trent Plc, a British waste-water-services firm. CEO Vic Cocker says the study likely will lead to a book laying out "the route forward" to a higher level of service. "What we're looking at," he says, "is a standard set of parameters" that apply across all industries and all sizes of businesses.



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# Making A Move To Portability

By Tim McCollum and Albert G. Holzinger

**O**n-the-go entrepreneurs frequently must take their offices with them. And because they represent a large segment of the office-equipment market, their need to be both fully productive and mobile has led the manufacturers of computers, telephones, and other electronic devices to design and produce innovative and powerful portable equipment and to sell it at highly competitive prices.

The goal of providing portability and adequate power to meet business people's needs also has led to a substantial degree of convergence among mobile

computing, organizing, and communications technologies. This convergence now enables small-business people to compute and communicate wherever they are, using one of a few coordinated devices and either traditional wired or new wireless telephone networks.

This special report describes some of the latest computing, organizing, and communicating tools—many of them hybrid products—including notebook and hand-held computers, advanced information organizers, modems, and wireless phones.



## Computing

*Today's best notebook computers are nearly as capable as state-of-the-art desktop PCs.*

Users of notebook computers no longer have to sacrifice capability to gain mobility. Today's most robust notebooks have substantially closed the performance and feature gaps separating them from high-end desktop PCs.

For example, top-of-the-line notebooks now generally feature excellent screens with either TFT (thin film transistor) or active-matrix technology. There's virtually no quality difference between the two competing technologies. The screens generally are either 12.1 or 13.3 inches measured diagonally from corner to corner. Screens—often called displays—incorporating this technology and of these dimensions are comparable in image quality and size to

the standard monitors for desktop PCs.

Also standard now on high-end notebooks are desktop-type specifications such as 16 or 32 megabytes (MB) of random-access memory (RAM) for fast operation of several programs simultaneously, hard disks with a huge file-storage capacity of 2 gigabytes (GB) or more, high-speed modems operating at 33.6 or 56 kilobytes per second (Kbps), blazing 10- to 20-speed CD-ROM drives, and excellent 16-bit stereo sound.

At the heart of these portables are nearly state-of-the-art Pentium microprocessors featuring Intel Corp.'s patented MMX (multimedia extension) technology. MMX substantially accelerates multimedia

operations such as World Wide Web browsing, and it speeds up to a degree even ordinary computing tasks such as processing text documents and spreadsheets.

In the office, so-called port replicators and docking stations allow the notebooks to be conveniently attached like desktop PCs to large monitors, printers, scanners, and other peripheral devices and to companies' networks of computers.

Following are descriptions of a number of these extraordinary notebooks, which run under Microsoft Corp.'s Windows 95 or Windows NT operating systems. (The exception is the Apple PowerBook model, which runs under the Mac OS.) They range from ultrathin designs weighing less than 5 pounds and designed for frequent travelers with basic computing needs, to workhorse Compaq Armada 7750MT models with



Compaq Armada 7750MT models with

## SPECIAL REPORT ON TECHNOLOGY

multimedia capabilities that weigh a pound or two more. Such models are acceptable for toting between home and office and for occasional travel.

## Notebook Computers

### Acer TravelMate 7060

Acer America Corp. has acquired the well-regarded TravelMate line from Texas Instruments and has improved it by adding unique battery and power-management technologies.

The result: an **Dell Latitude XPi CD M166ST** unprecharged seven hours of operation on a single charge of the lithium-ion battery. The TravelMate 7060 is a 166-megahertz (MHz) Pentium MMX system with a 12.1-inch TFT display, 32MB of memory, a 2GB hard disk, a fast graphics accelerator that's perfect for playback of multimedia presentations or videoconferencing, 16-bit stereo sound, and interchangeable diskette and 10-speed CD-ROM drives. A 33.6-Kbps modem is built in. Acer's optional \$299 DockMate III docking station allows the user to connect a notebook to desktop peripheral devices such as a large-screen monitor or a printer and connect to a local area network. Retail price: \$4,499.

### Apple PowerBook 3400c/240

This PowerBook can handle almost any graphics or communications chore because it features the fastest notebook microprocessor on the market—the 240MHz PowerPC model from Motorola Corp.—a 12.1-inch active-matrix display, 16MB of memory, a 3GB hard disk, a 33.6-Kbps modem, and an Ethernet network connector. Also standard are a 12-speed CD-ROM, four-speaker stereo sound, and multimedia connections for videocassette recorders, video cameras, and TVs. Retail price: \$5,500.



Gateway 2000 Solo 9100 XL

### AST Ascentia P80

The P80 includes the tools most business users need, including a 166MHz Pentium MMX processor, 32MB of memory, a 3GB hard drive, and a 12.1-inch active-matrix display. There's also 16-bit stereo sound with built-in speakers plus a 10-speed CD-ROM drive, which can be swapped with a diskette drive or a second lithium-ion battery. Peripheral devices or a network can be connected using an array of ports and so-called PC-card slots or via the optional \$349 Mini Dock. Retail price: \$3,976.

### Compaq Armada 7750MT

The power-packed 7750MT includes a 12.1-inch TFT display, a 166MHz Pentium MMX processor, 32MB of memory, a 2.1GB hard disk, and an integrated 33.6-Kbps data/voice modem that can be upgraded to 56 Kbps. A MultiBay on the computer allows users to add a CD-ROM drive, a diskette drive, a second hard drive, or a second lithium-ion battery. Compaq offers an array of docking options, including the compact MiniStation port replicator and the larger ArmadaStation with its full array of connectors. There's even a sort of docking station for the ArmadaStation called the Tower Stand. Retail price: \$5,699. Docking products start at \$450.

### Dell Latitude XPi CD M166ST

Dell didn't skimp on its latest multimedia notebook, a 166MHz Pentium MMX model featuring 16MB of memory, a

1.6GB hard drive, a 12.1-inch TFT display, and diskette and 12-speed CD-ROM drives. For multimedia applications, the CD M166ST features a high-speed graphics accelerator and stereo surround-sound with speakers. Price: \$3,900 direct from Dell.



IBM ThinkPad 765D

### Digital HiNote Ultra 2000 GTX 5166M

The HiNote Ultra 2000 features a 166MHz Pentium MMX processor, 32MB of memory, a 2.1GB hard drive, a 56-Kbps data/voice modem, and a lithium-ion battery. It also sports the industry's biggest TFT display—14.1-inches—yet weighs only 5.1 pounds and is a mere 1.2 inches thick. When users need multimedia features, they merely attach a light, thin docking device that houses stereo speakers, a 20-speed CD-ROM or a diskette drive, and an array of ports. Retail price: \$4,999 and up.

### Fujitsu LifeBook 656Tx

The LifeBook 656Tx is another mighty mite, a 1.2-inch-thin, 4.4-pound system featuring a 12.1-inch TFT display, a 150MHz Pentium MMX processor, a 2GB hard drive, and 16MB of memory. The LifeBook's Enhancement Unit—a thin, 3-pound device that attaches to the bottom of the notebook—houses a diskette and a 20-speed CD-ROM drive, stereo speakers, a 33.6-Kbps modem, and several ports, including a network connector. The notebook and the Enhancement Unit both contain a lithium-ion battery. Retail price: \$4,299.

### Gateway 2000 Solo 9100 XL

The Solo 9100 XL is loaded with helpful features. The 166MHz Pentium MMX system contains a 13.3-inch TFT display, a whopping 64MB of memory, and a 3GB hard drive. A combination diskette/10-speed CD-ROM drive can be removed and replaced with either a second lithium-ion battery or hard drive. The system handles multimedia elegantly thanks to its stereo, 16-bit sound chip, speakers, internal microphone, game port, and connectors for video sources such as VCRs and TVs. It also features a 56-Kbps internal modem for fast on-line connections. Price: \$5,699 direct from Gateway 2000.

### Hewlett-Packard OmniBook 800CT

At only 3.9 pounds, the 800CT is the lightest of this year's notebooks, yet it's as capable as the competition with its 166MHz Pentium MMX processor, 16MB of mem-

## For More Information

Details about the computing products described in this report can be obtained by calling the phone numbers below.

Acer America Corp., 1-800-733-2237

Apple Computer Inc., 1-800-538-9696

AST Research Inc., 1-800-876-4278

Chicago Map Corp., 1-800-257-9244

Compaq Computer Corp., 1-800-888-0396

Dell Computer Corp., 1-800-388-8542

Digital Equipment Corp., 1-800-722-9332

Fujitsu PC Corp., 1-800-838-5487

Gateway 2000 Inc., 1-800-846-2000

Hewlett-Packard Co., 1-800-322-HPPC (1-800-322-4772)

Hitachi PC Corp., 1-800-448-2244

IBM Corp., 1-800-426-2968

Micron Electronics Inc., 1-800-776-4518

Panasonic Computer Peripheral Co., 1-800-742-8086

Targus Inc., 1-800-390-4622

Toshiba America Information Systems Inc., 1-800-999-4273



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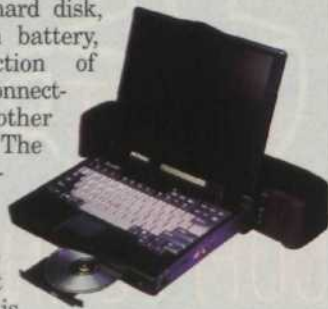
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## SPECIAL REPORT ON TECHNOLOGY

ory, 2GB hard disk, lithium-ion battery, and selection of ports for connecting with other devices. The TFT display also is the smallest, 10.4 inches, but the video is bright and crisp, so it's



Micron TransPort XKE

suitable for multimedia use in concert with the 800CT's microphone and stereo speakers. HP kept this OmniBook svelte partly by keeping the diskette drive and an optional \$400 eight-speed CD-ROM drive external. Retail price: \$4,100.

**Hitachi VisionBook Pro**

If maintaining communications is vital, then the VisionBook Pro could be the notebook for you, with its built-in 56-Kbps modem that works over standard phone lines or with a cellular phone, plus an Ethernet port for connecting to a company computer network. Inside, the VisionBook Pro has a 166MHz Pentium MMX processor, a 3.2GB hard disk, and 32MB of memory. Outside, it has a 13.3-inch TFT display plus two bays that can house a diskette or a 10-speed CD-ROM drive, or a second lithium-ion battery. The VisionBook Pro can be upgraded with a more powerful processor when one becomes available from Intel or additional memory using a component called the Processor Module. Retail prices: \$3,199 and up.

**IBM ThinkPad 765D**

IBM's ThinkPad line has been upgraded with a 13.3-inch TFT display, stereo sound, full-motion video, an eight-speed CD-ROM drive, and a 33.6-Kbps data/voice modem with speakerphone capabilities. The ThinkPad 765D system is powered by a 166MHz Pentium MMX processor and has 32MB of memory plus a 3GB hard disk. The ThinkPad's UltraBay allows users to replace the CD-ROM drive with a second hard drive or lithium-ion battery. The ergonomically correct keyboard automatically tilts to the most comfortable typing position. Retail price: \$6,999.

**Micron TransPort XKE**

Micron has managed to squeeze practically every feature imaginable into the TransPort XKE. For communications, there's a 33.6-Kbps data/voice modem that works with both wired and cellular phones. For multimedia, there are ports for connecting VCRs, video cameras, and digital cameras. The TransPort XKE also

has an excellent stereo sound system featuring integrated speakers and microphone, a 20-speed CD-ROM drive and a 13.3-inch TFT display. Under the hood, the XKE has a 166MHz Pentium MMX processor, 48MB of memory, and a 3GB hard disk. An ergonomic design features a full-size keyboard and two types of pointing devices. Retail price: \$5,149.

**Toshiba Tecra 740CDT**

The Tecra line has been upgraded to provide better graphics performance. It harnesses a 166MHz Pentium MMX processor and 16MB of memory to run standard and multimedia applications faster, and it has the added capability of running full-motion video on its 13.3-inch TFT display. The Tecra's videoconferencing kit includes a video camera, a video capture card, and Intel ProShare software. A built-in 28.8-Kbps data/voice modem has speakerphone and voice-mail capabilities. A bay in the Tecra can handle either a diskette or a 10-speed CD-ROM drive. Retail price: \$6,199.

**Notebook Accessories****Chicago Map Corp. Compass 3800**

Frequent travelers may benefit from a navigation system that makes it a challenge to get lost anywhere in the continental United States. The system consists of a device called the Eagle Explorer that receives signals from the Defense Department's Global Positioning System satellites orbiting Earth plus the highly regarded Version 3 of the Precision Mapping

Streets software. Plug the receiver into a computer with the mapping software loaded, and the result is an on-screen display of your exact position and heading, surrounding streets, and nearby points of interest. Price: \$229 direct from Chicago Mapping.

**Panasonic KXL-783A CD-ROM Drive**

If your notebook lacks multimedia-presentation features, the KXL-783A can provide them. The slim, 1.1-pound drive connects via a standard PC card or an SCSI (small computer system interface) port for eight-speed playback of CDs in a variety of data and audio formats. Two built-in speakers provide excellent stereo sound. The drive runs on AC power, from a wall outlet, six AA alkaline batteries, or an optional rechargeable Ni-Cad battery pack. Retail price: \$399.



Panasonic KXL-783A

**Targus Notepac Plus**

This inexpensive case can come in handy when carrying around components of your mobile office. It features separate padded compartments for a notebook computer and a wireless phone. Additional pockets hold CD-ROM disks, diskettes, PC and business cards, organizers, and more. There's even a three-section pocket for paper files. Retail price: \$59.95.

**Organizing**

*The new hand-held computers bridge the gap between organizing devices and full-featured computers.*

Notebook computers are not necessarily the ultimate portable organizing and light-duty computing tools. Their rivals in this niche are the latest hand-held computers.

These devices are small and light enough to be carried in a jacket pocket or a purse. Yet they incorporate and improve upon the best features of their predecessors, single-purpose personal organizers such as the Wizard from Sharp Electronics Corp. and so-called personal digital assistants (PDAs) such as the Apple Newton.

Organizers excel at maintaining phone numbers, appointment calendars, and notes via a small keyboard. PDAs provide

access to the same categories of data when graphical icons and menu items are touched with a stylus. PDAs also provide limited fax and data communications capabilities.

Many hand-held computers run under Microsoft's Windows CE operating system, which looks and operates much like the Windows operating-system software found on desktop and notebook PCs but requires far less memory. CE-based devices can run slimmed-down versions of common business software such as Microsoft's Word program for word processing and its Excel spreadsheet. This reduces training re-

quirements and facilitates exchange of data with full-blown systems.

The hand-helds described below differ substantially, however, in physical appearance, interface design, and functional emphasis, which gives small-business people a great deal of choice in finding one that can meet their needs.

## Advanced Organizers

**Casio Cassiopeia/Compaq PC Companion**  
The Cassiopeia and its nearly identical counterpart from Compaq include 2MB to 6MB of RAM, enough to run Windows CE and scaled-down versions of Word, Excel, and Schedule+, a contact- and schedule-maintenance program from Microsoft. They weigh 13 ounces and include a 4%-by-2%-inch liquid-crystal-display (LCD) screen with "backlighting" technology that makes it relatively easy to read. The tiny keyboards make it difficult to type documents but suffice for simple data entry.

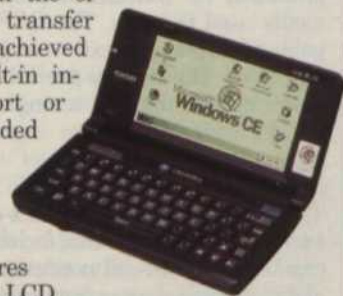
Both come with a "docking cradle" for convenient transfer and synchronization of files between the hand-held device and a PC. Communications are achieved using a conventional PC-card modem. Retail prices: \$499 and up for the Cassiopeia; \$289 and up for the PC Companion.

### Hewlett-Packard 320 LX

The 320 LX boasts a large, 6%-by-2%-inch, backlit LCD screen that's notable for its high contrast and clarity. The wide keyboard makes for relatively easy typing. The 320 LX has 4MB of RAM for data storage, 5MB of ROM (read-only memory, which is utilized by the operating system and other programs), and slots for additional memory cards. It also comes with a PC docking cradle. The Windows CE device comes with an array of Windows productivity software. Retail price: \$699.

### NEC MobilePro 450 H/PC

The MobilePro 450 can work in close concert with a PC even when the two devices are not in the same place: The Windows CE device comes with Symantec's PC Anywhere software, which allows users to access PC files from afar via a PC-card modem. In the office, file transfer can be achieved via a built-in infrared port or the included docking cradle. The MobilePro 450 features a backlit LCD display of 4% by 2% **Casio Cassiopeia**



inches and has 4MB of RAM and 8MB of ROM. Retail price: \$499.

### Philips Velo 1

Philips' sleek, attractive Velo 1 is a robust communications tool. It features a built-in 19.2-Kbps modem and a voice recorder for storing up to 16 minutes of notes or conversations. It also can communicate via an infrared port, cable, or included docking cradle. The Velo 1 ships with 8MB of ROM and up to 8MB of RAM, which can be expanded to up to 80MB via a miniature memory card. It has a 4%-by-2%-inch backlit display. Retail price: \$699 and up.

### Psion Series 5

The first thing you notice when you open up Psion's new Series 5 hand-held is the keyboard, which has larger keys than its competitors. The device features 4 or 8MB of RAM and a 5%-by-2%-inch backlit LCD



Sharp Zaurus ZR-5800

screen that slides down over the keyboard when the Series 5 is closed. This is the first Psion with an interface that provides for operation via a stylus, which also can be used to make notes. The Series 5 operates under the proprietary EPOC32 system, which



Psion Series 5

runs Psion and third-party software and includes utilities for converting hand-held-computer files for use in popular Windows 95 applications such as Corel WordPerfect and Microsoft Word. Retail price: \$599 and up.

### Sharp Zaurus ZR-5800

The Zaurus ZR-5800, another device that does not use Windows CE, improves on its popular predecessors from Sharp by integrating productivity and communications capabilities. The device comes with a snap-on modem and software that lets users dial via phone line their company computer network, CompuServe, the Internet, or a fax machine to send and receive messages. Users also can exchange data wirelessly using an optional Motorola Personal Messenger 100D wireless modem that works with the ARDIS radio network.

The Zaurus ZR-5800 comes with spreadsheet, word-processing, personal-information-management, and notepad software. The device comes with 2MB of RAM, which can be upgraded. Retail price: \$399.

### 3Com PalmPilot Professional

The PalmPilot dominates the market in hand-helds, according to market-research firms Dataquest and PC Data. Why? It's simple to use and is loaded with features that mobile professionals desire, including electronic-mail connectivity, expense tracking, and contact, calendar, and personal-information management. It also automatically synchronizes its data with that on a user's desktop via a docking cradle or a modem that snaps onto the bottom of the device. The Professional model of the PalmPilot includes a backlit screen and 1MB of RAM. Retail price: \$399.

## Accessories

### A.T. Cross DigitalWriter PDA Pen

The pens in Cross' DigitalWriter line provide a precise "pen-on-paper" feel when writing on the slippery screens found on hand-held computers and organizers. They also can be fashion statements, with the top-of-the line model styled in lapis lazuli. Retail prices: \$17.75 to \$300.

## For More Information

Details about the organizing products described in this report can be obtained by calling the phone numbers below.

- A.T. Cross., 1-800-510-9660
- Casio Inc., 1-800-962-2746
- Compaq Computer Corp., 1-800-888-0396
- Hewlett-Packard Co., 1-800-443-1254
- NEC Computer Systems Division, Packard Bell NEC Inc., 1-888-306-4636
- Philips Electronics North America Corp., 1-888-367-8356
- Psion Inc., 1-800-997-7466
- Sharp Electronics Corp., 1-800-237-4277
- 3Com Corp., 1-800-881-7256

## SPECIAL REPORT ON TECHNOLOGY



# Communicating

*Wireless technology is changing fast, and the result is better connections at the lowest prices yet.*

Wireless communications technology is changing—and improving—at least as fast as computing technology. The pace of change is especially frenetic in the wireless-phone category.

Across America, a host of vendors are introducing so-called personal communications services (PCS), a digital wireless-transmission service. In the growing number of areas where there is competition, wireless-messaging prices are tumbling and cellular providers are being pressured to upgrade their networks to digital technology.

The advantages of digital calling service include its greater security against theft of wireless-phone access codes, greater call clarity, and ancillary features such as paging and voice mail.

Choosing the right phone to take advantage of the new low prices and features can be a bit tricky, however, because there are

Also listed below are a few of the latest modems, pagers, and other devices that can help keep you connected to business information, employees, and customers no matter where you are.

## Wireless Telephones

### Ericsson CF 788 PCS

This easy-to-carry phone is just 4 inches long and weighs less than 5 ounces. The CF 788 is compatible with GSM networks and offers up to three hours of talk time on a single battery charge. It includes a flexible menu system that enables users to access frequently used functions by pressing a single button on the keypad. Other CF 788 features include a 97-number speed dialer, caller-ID and conference-calling capabilities, and a missed-call utility that stores the numbers of unanswered calls.

### Motorola StarTAC 8600

The StarTAC 8600 is an analog cellular phone with features that rival many digital models. The most useful may be the built-in answering machine and voice recorder, which can record up to four minutes of incoming messages or voice memos. Also included are caller-ID and pager capabilities and a VibraCall feature that alerts users to incoming calls with a slight vibration instead of a ring. At only 3.1 ounces, the StarTAC 8600 is one of the lightest phones.

A button on the side of the phone makes it a snap to access phone features, scroll through a personal phone directory, and place calls. The basic battery provides one hour of talk time.

**Motorola TalkAbout Plus**

### Nokia 9000 Communicator

The most distinctive wireless phone around, the Nokia 9000 Communicator, is a hybrid GSM-compatible digital cellular phone and personal organizer. On the outside, it's a digital phone that provides convenient access to functions such as a personal phone directory. And it gets up to two



**Motorola PageWriter 2000**

hours of talk time on a single battery charge. On the inside, the Communicator looks and functions like a personal organizer with a small LCD screen and keyboard. The organizer component allows users to maintain contact and appointment lists, send faxes, access e-mail, and dial into the Internet to browse the World Wide Web. Estimated retail price: \$1,500.

### Northern Telecom PCS 1911

Nortel's PCS 1911 is a GSM-compatible phone with a plethora of calling features, including 10-number speed dialing, and voice-mail, paging, call-waiting, and caller-ID capabilities. The handset has a four-line screen that displays incoming-call numbers, and the keypad has large, backlit keys for easy dialing under any conditions. The PCS 1911 works with a network provider's text-message service offerings to allow users to receive and send messages of up to 160 characters. As a theft deterrent, the phone can be set to require a password for use. Retail price: \$139

### Qualcomm QCP-800

Qualcomm's QCP-800 digital cellular phone works with CDMA networks, which are based on technology developed by the company. It also works on standard analog cellular networks, providing greater roaming options for those who travel. The phone has a menu system that can be programmed for convenient access to commonly used features. The QCP-800 is capable of displaying text messages of up to four lines. The battery provides up to five hours of talk time on a single charge in CDMA mode.

### Samsung SCH-1011 PCS

The SCH-1011 is a CDMA-compatible handset with features that include caller-ID capability, missed-call notification, and the ability to restrict users from calling particular numbers. The SCH-1011 allows users to



**Motorola StarTAC 8600**

three incompatible types of digital networks. When shopping for digital wireless service, ask providers what network technology they employ, and buy your phone accordingly.

Following is a sampling of superb digital phones incorporating the two most common technologies—GSM (global system for mobile communications) and CDMA (code division multiple access)—as well as one outstanding phone based on older analog technology for those who still don't have access to a digital network.

Phone manufacturers generally do not disclose retail prices. Many wireless phones are deeply discounted by service providers who offer them as incentives for signing up.



**Nokia 9000 Communicator**

store up to 99 phone numbers in memory as well as redial the last 10 numbers called. The phone's five-line LCD display lets users view short messages and provides easy access to the phone's menu of features. For security, the SCH-1011 comes with a lock feature that prevents other people from using the phone without authorization. Talk time is up to two hours with the standard battery. Retail price: \$149

#### **Sony CM-D600 PCS**

This CDMA-compatible phone, which is manufactured for Sony by Qualcomm, has features that can help users get more out of their service. One such feature informs the user of the signal quality in an area before a call is made. A four-line backlit display makes it easy to access phone functions and view incoming text messages. There's also an authentication system to protect against theft of wireless-phone codes. The CM-D600's battery provides up to four hours of talk time and alerts the user when it is running low.

## **Pagers**

#### **Motorola PageWriter 2000**

The PageWriter 2000 enables users to communicate wirelessly with just about anyone. Like other pagers, the PageWriter can receive numeric and text messages. But unlike most pagers, it allows page recipients to send replies via e-mail, fax, and their own pagers. The PageWriter achieves this two-way functionality via a tiny keyboard and a backlit display with a graphical user interface that makes it easy to access, create, and store messages. The device includes an electronic address book and software for organizing messages. Retail price: \$399.

#### **Sony MP-1000**

The Sony MP-1000 pager stores up to 16 numeric pages even when it's turned off. The messages are time-stamped so that users can know when someone called. Users can choose to be alerted to incoming pages via a silent vibration or a musical chime. The MP-1000 works with the SkyTel paging service, a nationwide paging network. Price, including 50 pages: \$99.95 direct from SkyTel.

## **Modems**

#### **Compaq Cellular PC Card**

This device allows users of Compaq notebooks to go on-line wirelessly at up to 19.2 Kbps by connecting their computers to their cellular phones. The card works in concert with the internal modem in Compaq's 7000 series notebooks, so all a user has to do is plug it in and dial out as with a regular modem. With other Compaq models, the card must be used with Compaq's Speed-Paq telephone modem. Retail price: \$499.



#### **Ericsson Mobile Office DC 23**

The Mobile Office DC 23 is a PC card that plugs into any Windows-based or Macintosh notebook computer and connects by cable to an Ericsson GSM-compatible digital phone for sending or receiving faxes or accessing the Internet at 9.6 Kbps. It also works with the phone to provide text messaging, to organize and store phone directories, and to synchronize data between the phone and a PC. Retail price: \$499.

#### **Ericsson CF 788 PCS**

#### **Global Village PC Card 56K Modem/Ethernet Adapter**

This all-purpose PC card provides connections to a company Ethernet network as well as to on-line services, the Internet, and elsewhere in the outside world at up to



**Simple Technology 56K Communicator**

56 Kbps. It also provides send and receive fax capabilities in concert with Global Village's well-respected FaxWorks software program. Wireless-connection kits are available for owners of analog cellular phones from Motorola and Nokia. The device features circuits that protect it from electrical surges. Retail price: \$329 for the PC model; \$379 for the Macintosh-compatible version.

#### **Simple Technology 56K Communicator**

The 56K Communicator continues Simple's tradition of providing full-featured PC-card modems at bargain prices. This model provides data communications at up to 56 Kbps, fax sending and receiving, and a host of voice-messaging features, including voice mail and alert via pager to incoming messages. Wireless-connection cables are available for most analog cellular phones. Retail price: \$209.

## **For More Information**

Details about the communications products described in this report can be obtained by calling the phone numbers below.

Compaq Computer Corp., 1-800-888-0396

Ericsson Inc., 1-800-374-2776

Global Village Communication Inc., 1-800-736-4821

Motorola Inc., 1-800-331-6456 (phones); 1-800-548-9954 (pagers); 1-800-353-2729 (radios)

Nokia Inc., 1-800-666-5553

Northern Telecom, 1-800-466-7835

Qualcomm Inc., (619) 587-1121

Samsung Telecommunications America Inc., 1-888-987-4357

Simple Technology Inc., 1-800-367-7330

SkyTel Corp., 1-800-363-5845

Sony Electronics Inc., 1-800-578-7669

## **Other Communicators**

#### **Motorola TalkAbout Plus**

The Federal Communications Commission recently made a range of radio frequencies available free from licensing requirements and usage fees. Motorola quickly developed two radios for these frequencies and called them TalkAbouts.

Though designed primarily for use by active families, these devices are excellent for communicating in a spread-out business environment such as a factory or a construction job site.

The devices are compact, weigh only 7 ounces, and have a range of up to two miles. They feature 14 communications channels and 38 subchannels—532 combinations in all—for interference-free communications. Three AA batteries provide about 30 hours of average use. Retail price: \$179 each.

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# July Poll Results Readers' Views

## Changes For Growth

**C**hanges in key federal policies are needed to promote further economic growth, according to most respondents to a *Nation's Business* poll.

Readers who responded to the Where I Stand poll in the July issue cited tax reform as the most critical area for reform among the options presented. Also high on their lists were a balanced federal budget, regulatory reform, and legal reforms.

On regulation, respondents cited reducing paperwork, eliminating conflicting regulations, and focusing rules on the greatest dangers to public health as the areas in which reforms would be most useful.

On tax reform, respondents were closely divided between simplification of the system and removing disincentives to saving and investing.

Here are the complete results of the poll:

### Questions And Answers

#### Do you think federal policies do enough to promote economic growth?

Yes	23%
No	68
Undecided	9

#### Which one of the following do you think would provide the biggest boost to business productivity and economic growth?

Regulatory reform	15%
Improved education and training programs	8
Tax reform	46
Legal and tort reforms	12
A balanced federal budget	19

#### What aspect of federal regulatory reform would be most useful to you?

Eliminating conflicting regulations	21%
Allowing more flexibility in complying with rules	14
Focusing rules more on the greatest risks to public health	21
Seeking compliance with voluntary guidelines before issuing regulations	18
Reducing the amount of paperwork associated with compliance	26

#### What type of reforms in education and training would be most important to you?

Improved instruction in public elementary and secondary schools	65%
More course offerings at local community colleges	4
More locally based technical training	18
Better preparation of college students for the workplace	13

#### Which tax changes do you think would best spur economic growth?

Broadening of the tax base and reducing the highest marginal rates	10%
Simplifying the tax code and reducing compliance costs	46
Removing disincentives to saving and investing	44

#### Which of the following legal reforms do you think would best boost economic growth?

Limiting punitive damages in product-liability cases	68%
Apportioning financial responsibility for noneconomic damages (pain and suffering) in product-liability cases	21
Setting stricter time limits for filing product-liability suits	11
Medical-malpractice reform	0

# Where I Stand



## On Highway Funds

Congress is considering legislation to authorize the spending of receipts from federal motor-vehicle fuel taxes and other user fees for 1998 through 2003. Revenue for the Highway Trust Fund totaled \$25 billion in 1996; \$22.4 billion is earmarked for highway and road work, and \$2.6 billion is to be spent for mass transit. These questions seek your views on spending for roads and bridges.

Results of this poll will be published in the November issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.



**What is the general condition of major highways and bridges in your region?**

1. Excellent or good
2. Fair
3. Marginal or poor



**Do you favor the law that designates some federal fuel-tax receipts to help balance the federal budget?**

1. Yes
2. No



**Should the federal highway program be streamlined to give state and local officials more flexibility in spending U.S. transportation funds?**

1. Yes
2. No



**Would you favor higher motor-vehicle fuel taxes if the additional money were dedicated to highway projects?**

1. Yes
2. No



**Do you favor spending the accumulated trust-fund surplus of about \$24 billion on highway and bridge construction and repair?**

1. Yes
2. No

**Send Your Response Today!**

# Family Business

*The best way to go; dedication spilling into compulsion; being fair to the heirs.*

## OBSERVATIONS

### Retiring With Class

By Sharon Nelton

**M**any family-business owners dread retirement. In fact, some dread it so much that they never let go, often creating misery for the younger generation and sometimes causing harm to a company.

Better to retire with class.

I found some wonderful guidelines in a piece on retirement in *Executive Insights*, a quarterly publication of RHR International Co. RHR, based in Wood Dale, Ill., is a consulting firm that specializes in corporate psychology.

RHR urges executives to look at retirement from the organization's perspective and to view it as an opportunity to improve the company. Here are its suggestions:

**Review past retirements.** Talk to people in departments that continued to function well following a key executive's departure and to those in departments that were left in poor shape. These discussions should yield valuable insights about the way you make your departure.

**Make an inventory of your job activities.** It will serve as a guideline to

your successor by highlighting the areas that are most important and by identifying tasks that might be eliminated. Doing this takes considerable maturity, RHR says, because "we are naturally hesitant to admit that some tasks we have done for years are no longer necessary."

**Conduct a future job analysis.** This means identifying the challenges ahead and the requirements for meeting them.

**Create objectives to be accomplished before you retire.** Once you've decided to retire, there's some risk that you'll lose interest in the job. Setting goals can help you stay interested and focused.

**Identify, evaluate, and develop possible successors.** "A long lead time allows the retiring executive to observe the candidates to determine whether they can handle the responsibilities identified in the future job analysis," says RHR. Identification should begin as early as five years ahead of the retirement date, according to RHR. (Many family-business experts say that a family firm needs a lead time of 10 years or more.)



PHOTO: T. MICHAEL KEZA

**Create an inventory of content knowledge.** Plan to transmit knowledge about your position that will be critical to your successor, such as industry knowledge or historical knowledge about the company.

**Create an inventory of process knowledge.** You do many things instinctively. Now is the time to become more conscious of the processes you use, such as how you take the pulse of the organization informally or reject ideas without dampening enthusiasm. This kind of knowledge is important to the development of younger executives.

"The secret," says RHR, "is to give up power actively; don't wait for it to slip away." Looking at your retirement from the perspective of the organization instead of focusing on yourself, RHR suggests, will help smooth your transition to a new phase of life.

*Executive Insights* is free. If you would like to have your name added to the mailing list, call RHR International at (630) 766-7007.

## PLANNING

### Facing Up To A Loved One's Addiction

By Bernard Kliska and Craig E. Aronoff

**M**elvin, the head of a family business, has been known for his tremendous drive. But now, at age 55, he has really kicked into high gear. His son Steven will take over the business in a few years, and Melvin wants to leave the company in the best possible shape. A major expansion has been announced, and Melvin has begun working seven days a week, 10 to 12 hours a day.

Occasionally, other family members voice concern about Melvin, but they can't really argue with his success or his goals. If he fails to show up at social engagements or family events, most understand. When a few relatives have criticized him,

they have been labeled selfish. "You reap the benefits of the business' success," one family member said. "Don't question Mel's priorities."

Although Melvin's wife is somewhat worried, she thinks he can determine for himself whether he is working too hard. She knows that he is thinking of his family's future. She is pleased that he has at least allowed himself more long weekends in Las Vegas "to unwind." He is treated well there, too; everything is complimentary except his losses.

Family members know that their role is to make things as easy as possible for Melvin. After all, he has it hard enough at



PHOTO: GIBRICE POWELL

Craig E. Aronoff left, holds the Dinos Chair of Private Enterprise at Kennesaw State University in Kennesaw, Ga. Bernard Kliska is a licensed family therapist in Chicago and retired CEO of his family's fourth-generation business. Both are family-business consultants. Copyright © by the Family Business Consulting Group, Inc.

work. He doesn't need family pressure on top of everything else.

Melvin's family doesn't realize it, but Melvin is in trouble. He is exhibiting addictive behavior in his work and probably in his gambling. His identity has always been overly dependent on his work. Now the imminent passing of the torch to his son has undermined Melvin's sense of self. To deal with his crisis, Melvin has intensified his usual coping mechanisms, working all the harder.

We see problems ahead. Within the next year, Melvin's family can expect any or all of the following: an emotional or physical crisis in the family and increases in Mel's gambling losses, even less time spent with family, and increasingly erratic decision making. Addictive behavior, if unchecked, typically accelerates and leads to crisis.

While Melvin protests that he does it all for the family, certain signs suggest that his behavior is better explained by addiction:

**Self-esteem based upon performance rather than a sense of identity.** Addiction is often a compensation for a shallow sense of identity. Genuine identity is formed through intimate relationships and through introspection. We develop identity primarily by facing our internal and interpersonal conflicts and working through them, turning toward ourselves and toward others. Addictive behavior takes us along the opposite path; we focus on things and avoid emotional realities.

**Isolation.** Addictions require isolation. Sometimes this is hard to spot because people often assume that if you are around crowds, you are not isolated. Working, drinking, drugs, or gambling that takes precedence over emotional attachments means isolation. Large crowds frequent casinos, which are full of lonely addicts.

**Denial.** We hear much about denial but seldom recognize its subtle masks. Melvin sees himself not as addicted to work but as tending nobly to his family's future. In his mind, the increasing trips to—and losses in—Las Vegas represent not a gambling addiction but a well-earned way of unwinding.

**Enabling.** The few relatives who suspect that Melvin has a problem have been

labeled as selfish. Those who see nothing to discourage in his behavior can be called "enablers." They include Steven, who appreciates his father wanting to leave him a prosperous company; Melvin's wife, who wants the best for her son; and the other relatives who are proud of and enriched by Melvin's prodigious efforts. They are not bad or venal people. They just don't realize that they are assisting Melvin on his journey to self-destruction.

Families in business often experience intensified stress. Other families can use work as a separate arena, a place to bleed off pressure. But a family business, where work and family are intertwined, can be like an echo chamber. And when the defense for addictive behaviors serves a dual function—"What's good for the business is good for the family"—it's much more difficult for everyone to see and confront what's going on.

Also, such families might perceive a greater risk in acknowledging an addiction. They not only fear—as most families do—the shame and public reaction but also might be concerned with effects on profits, livelihood, and the reputation of the business.

Fortunately, families in business also have some unique strengths that can facilitate treatment and recovery. If Melvin's family members can see what is really happening, they do not have to struggle with one of the most powerful roadblocks to recovery that confronts other families—enlisting the understanding and support of those in the work environment and ensuring that the employee doesn't become ostracized or pushed off a career track. The family is not faced with having to rally separate support systems; its support system encompasses both home and work.

As difficult as it may be for us, we have to remember that any system that encourages addictive behaviors and fails to distinguish between hard-working, dedicated behavior and driven, compulsive behavior does a disservice not only to the individual but also to everyone in the family. Ultimately, everyone in the family pays the price for the addictive behavior of any of its members.



ILLUSTRATION: TROY THOMAS

## MARK YOUR CALENDAR



### Sept. 10, Elmhurst, Ill.

"Preparing Your Family For Succession" is a breakfast program featuring family-business consultants Edwin A. Hoover and Colette Lombard Hoover. Call the Midwest Association of Family Business Owners; (630) 495-8900.

### Sept. 11, Medford, Ore.

"Succession: Choices and Challenges" is a half-day workshop offered by Oregon State University. To be repeated in seven other communities. Call Marlene Sharp; 1-800-859-7609.

### Sept. 16, Wilmington, Del.

"Building Consensus Over the Generations" is the topic of a morning seminar featuring a panel of family members from three companies. Call Jill Lock at the Family Business Advisory Council; (302) 652-3480.

### Sept. 16, Toledo, Ohio

"Leadership Development" is a seminar conducted by nationally known family-business consultant Bonnie M. Brown. It will cover topics such as defining effective leaders and developing leadership-training programs. Call the University of Toledo Center for Family Business; (419) 530-4058.

### Sept. 16, Weston, Mass.

"Why and How To Capture Family Stories" features writer Patricia Schiff Estes. Call the Northeastern University Center for Family Business at (617) 320-8015.

### Sept. 30, Waco, Texas

"Estate Planning—Business And Personal" is a seminar offered by the Baylor University Institute for Family Business. Call Doris Sandberg; (817) 755-2265. Ask about additional topics and dates.

### Oct. 15-18, New Orleans

"Family Business: Progress and Prophecy" is the theme of the annual conference of the Family Firm Institute. Futurist Francis Fukuyama will make a keynote presentation on "Social Capital, Family Firms, and the Global Economy." Call (617) 738-1591.

### How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.

## FAMILY BUSINESS

# Case Study: Treating Your Heirs Fairly

Sandy is up-to-date on the latest in family-business literature, but nothing he has seen seems to talk about calculating financial value based on future opportunities.

His daughter, Cindy, is 25, has three years of experience in real-estate development, and is about to join Essex Quarry, which Sandy acquired five years ago.

Although the business is struggling as a quarry and has a negative book value, the discovery of a new vein and some pending zoning variances to allow for

commercial development are making the future look bright.

Having read too many articles about the differing interests and resulting battles of stockholding family members who work in the business and those who don't, Sandy is convinced that ownership of a family business must be in the hands of those who work in it. He wants to give his daughter 40 percent equity in Essex

Quarry while its value is still low.

However, he doesn't know how to deal fairly with his son, Lewis, who has a thriving career in journalism and has made it clear that he has no interest in joining the business.

"If I sold stock with a book value to Cindy at a discount," Sandy remarks, "I could calculate what I 'gave' her and make it up to Lewis with other assets. But I'm dealing with 'potential'."

"How do I calculate that and be fair to both my kids?"

## Response 1

### Keep Issues Separate

Sandy needs to address each of the issues separately. Giving stock to Cindy is appropriate, and the need to be fair to both children doesn't change that.

Sandy should make the gift to Cindy and determine the gift-tax value of the stock using his best estimate of the value of known mineral reserves. Allowances can be made to compensate for estimates, extraction costs, minority interest, and lack of liquidity. But that value might not be the best measure of what Sandy can or should do for Lewis.

Because the stock value is based on estimated future income, actual results will be different, and the future stock value will be compared with what Sandy gives Lewis today. Some ways to deal with this situation are:

1. Delay any gift to Lewis until the stock value is more certain.
2. Give Lewis an equal amount of "phantom stock" now, with its change in value to be cashed in five years hence. Under this plan, no real stock is transferred but Lewis is given appreciation rights to his shares.
3. Give Lewis the equivalent in nonvoting stock. He would have no voting rights, but his stock value would follow Cindy's.

4. Make a gift to Lewis equal to the best estimate of the present value of

Cindy's stock and make up the difference to one of them later. Don't ignore the risk that Cindy has in realizing the future value of her stock.

Sandy must make sure that his son and daughter understand his concept of fairness so they won't resent each other. Finally, Cindy should be compensated at market value for her work in the business.



ILLUSTRATION: TROY THOMAS

## Response 2

### Involve All In The Process

Sandy should recognize that fairness and equality are seldom compatible goals.

Fairness revolves around the issue of equity, which often addresses differences on a logical basis.

Equality, on the other hand, implies that everything has to be the same. Aiming for equality is often impractical and can lead to bad decisions.

First, it's important for Sandy to articulate and analyze his goals. He should clearly determine what he wants to accomplish and why.

The next step would be a meeting with his children, Cindy and Lewis. At this meeting, Sandy would articulate to them his desire for fairness and his belief in providing ownership in a family business only to those who work in the business.

Cindy and Lewis would have a forum in which to let Sandy know how they feel about the situation. A second three-way meeting may be necessary for a full airing of ideas.

Because of the cloudiness around the current worth of Essex Quarry, the family members might agree to have a valuation made at a given date, perhaps two years hence. At that time, the fairness-versus-equality issue could be revisited.

Or, rather than wait, the family might agree to find a valuation expert who might be able to anticipate the significance of the discovery of the new vein and the pending zoning variances.

Whichever approach is taken, all affected parties will be involved in the decision-making process and will have resolved in advance the fairness-versus-equality balancing act.



Donald C. Reinardy, managing partner of Smith & Gesteland, an accounting and business consulting firm in Madison, Wis.



Jeffrey M. Davidson, a partner with Deloitte & Touche's Financial Counseling Services Center of Excellence in Cincinnati.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Paul I. Karofsky, executive director of the Northeastern University Center for Family Business in Dedham, Mass. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Brookline, Mass.

## TRAVEL

# Quiet Havens At The Airport

By Hal Morris

**M**ichael Haynes, senior vice president of an investment-banking firm, is relaxed and sipping orange juice as he scans his mail, which he has spread across the table before him. He's taking care of a little business, but he is not in his office.

Haynes is at McCarran International Airport in Las Vegas—appreciating the peace and quiet of Delta Air Lines' Crown Room Club, sheltered from the hubbub of the terminal. In the club room, he can focus on banking matters—"I just hate sitting around" before takeoff, he says—until he is informed, personally, that he can board his flight to Los Angeles.

Frequent business travelers such as Haynes are increasingly using members-only airline clubs—secluded oases at major airports—to sidestep the crowds, hassles, check-in lines, and other terminal annoyances. Haynes typically makes two flights a week to Los Angeles and often travels to Denver, Salt Lake City, and Austin, Texas, so he is a familiar visitor in Delta's Las Vegas club.

On a recent morning he was traveling on short notice to meet with commercial bankers. Although he narrowly missed the flight he had reserved, he switched easily to the next Delta departure with the help of a Crown Room Club representative, who used a computer terminal in the room.

## Business Hubs

Delta's Las Vegas lounge is one of almost 200 domestic airport club rooms maintained by major U.S. airlines. The clubs—some as large as 10,000 square feet—offer not only boarding passes and reservation changes but also various business services. These include the use of telephones (usually no charge for local calls), fax machines, copiers, computer hookups, and conference rooms. A growing number of clubs provide Internet ac-

cess and laser printers for computers.

Plush chairs and sofas round out the subdued atmosphere, where guests can work, read, watch television, or simply get some rest.

The combination of business services and relaxing ambience has prompted Randy Petersen, publisher and editor of *InsideFlyer* magazine, to call airport clubs part Kinko's and part cocoon.



Airline club rooms such as this Delta retreat near the busiest gates at the Atlanta airport help business travelers relax while they work.

Clubs' membership numbers are closely guarded by the airlines. Petersen, whose monthly on frequent-flier programs is based in Colorado Springs, Colo., estimates that a typical club has 200,000 to 300,000 members and that United Airlines tops the list with 400,000. Delta leads in the number of domestic club locations with 45. America West, on the other hand, operates just two—both in Phoenix.

Some airlines maintain multiple club rooms at busy airports. At Atlanta, for example, Delta has six rooms. New York's Kennedy International is the site of two each for American, Delta, and TWA. Continental has two at Newark, N.J. Among the rooms at Washington's Dulles International are three operated by United. United also has three rooms at

*Airline clubs offer a place apart from the madding crowd—but not far from the gate.*

San Francisco and Chicago's O'Hare, and US Airways has three apiece in Charlotte, N.C., and Pittsburgh.

## A Host Of Extras

Some airlines' club rooms provide even more than coffee and copiers. American's Admirals Club offers notary service. Continental's Presidents Club provides discounted overnight delivery services.

Northwest's WorldClubs feature personal computers, and US Airways' clubs display stock quotes.

The conference rooms available at many clubs are proving to be convenient meeting places, and their use is growing. Says Petersen: "Whether for job interviews, board meetings, or sales pitches, participants meet and go back home. It saves time and money. From a cost point of view, it's an excellent option." The rooms are booked in advance at generally \$25 to \$50 an hour.

Two airline-club features that are popular overseas but never caught on at U.S. airports are shower facilities and massage loungers, says Petersen. He adds that only about 5 percent of domestic clubs have automated teller machines, because ATMs are

so commonplace in airport concourses.

Besides offering a number of services, club rooms can aid in client relations. Investment banker Haynes cites the time he was to meet a Saudi Arabian business man flying in for a meeting at the Crown Room Club in Las Vegas. Haynes unexpectedly had to take another trip, so a lounge representative accorded the Saudi visitor royal treatment until one of Haynes' staff members arrived.

Haynes cites the club's hospitality as an example of the extra value he gets from his membership.

## The Price Of Belonging

Airline clubs' first-year membership fees range from \$125 at Hawaiian Airlines to \$400 at United. Annual re-

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Some small-business owners are beginning to see the impact of electricity deregulation, and others would be well-advised to know what's at stake.

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## TRAVEL

newals are lower, typically by \$50 to \$100. Some airlines offer lifetime memberships. Most allow spousal memberships at additional cost.

Memberships can be purchased at travel agencies, airlines, and club rooms. Some companies foot the bill for their executives. Travelers who want to sample a club's facilities usually can do so with a one-time visit for \$25 to \$50.

Airport clubs offer beverage service. Soft and hard drinks used to be complimentary at all clubs, but now only a few airlines' clubs offer free drinks. Some airlines are trying to make money through the clubs, says Petersen. Some now charge \$1 for a soft drink, he says, which typically is higher than the price outside the lounge. Coffee remains free, however.

## Personal Attention

Longtime club member Derek Law of

Yardley, Pa., recalls when club facilities were complimentary to frequent travelers. "And I remember when a lifetime club fee was \$200, about the cost now for a one-year membership," he adds.

As an oil-company manager in research, he traveled widely in the United States and overseas and held memberships in four airline clubs. Though he's retired, he still logs many air miles—150,000 last year—often with his wife, a high-school teacher. He has narrowed his membership to Northwest's WorldClubs.

"I still like the clubs' relative privacy and more personalized attention, especially when there are delays or bad weather," Law says. "It's nice to get priority treatment."

*Hal Morris is a free-lance writer in Las Vegas.*



## Airport Oases

The following airlines offer members-only club rooms for passengers at various U.S. airports. Information on the clubs' locations, fees, and amenities can be obtained by calling the numbers listed.

Airline	Club Name	Number Of Club Rooms*	Fees
			First Year/Renewal
Alaska Airlines 1-800-654-5669	Board Room	5	\$250/\$150
America West Airlines (602) 693-2994 (602) 693-4072	Phoenix Club	2	\$200/\$150
American Airlines 1-800-237-7971	Admirals Club	30	\$300/\$200
Continental Airlines 1-800-322-2640	Presidents Club	12	\$200/\$150
Delta Air Lines 1-800-221-1212	Crown Room Club	45	\$300/\$200
Hawaiian Airlines 1-800-367-7637	Premier Club	9	\$125/\$105
Northwest Airlines 1-800-692-3788	WorldClubs	20	\$270/\$195
Trans World Airlines 1-800-527-1468	Ambassadors Club	19	\$175/\$150
United Airlines (520) 881-0500	Red Carpet Club	27	\$400/\$275
US Airways 1-800-828-8522	US Airways Club	27	\$250/\$175

\*U.S. club rooms only. Some airlines operate multiple club rooms at major airports.

SOURCES: RESPECTIVE AIRLINE COMPANIES

# Making It

*Growing businesses share their experiences in creating and marketing new products and services.*

## A Splashing Success

By Roberta Maynard

**G**ene Kijowski's annual endurance test is nearly over for another year. It's the end of the swimming-pool season, that steamy, sticky stretch from Memorial Day weekend through Labor Day when Kijowski faces the ultimate customer-service challenge: 101 days in which to make customers happy with clean pools, competent management, and, most important, no serious injuries.

His passion to meet that challenge has led to a thriving business for Kijowski, a Baltimore native who 31 years ago gave up notions of teaching school to take a job as a

pool cleaner and lifeguard. Now his 24-year-old businesses in Kensington, Md., operate 287 pools in the Washington, D.C., area. Century Pool Management, Inc., staffs and manages pools, and Century Pool Service, Inc., handles the technical aspects of pool operation and repair.

But as area children put away their swimsuits and head for school, Kijowski's 24 full-time employees barely pause to take a breather. They will turn to contract renewals, hiring, training, and scrutinizing Century's systems in search of ways to work smarter and better next season.

Working smarter and better is Kijowski's creed. During the six years he worked for other pool companies, he saw that many had inefficient systems and were poorly organized, and that there was little supervision and minimal training. He remembers once having to use a rusty nail to adjust equipment because the company hadn't provided the necessary Allen wrench—and the inspector was due in 15 minutes. Crisis management was not his style, he decided. Better to be a step ahead, especially in a business where people's lives are at stake.

In 1974, he put those lessons into practice by starting his own business. The firm managed 54 pools its first season, nearly twice as many the next. "The reason for our accomplishments was simple," recalls Kijowski. "Our overarching core values demanded that we provide the best and safest pool service available and deal honestly with our clients and employees."

"Until 1990, most of what we did was sur-

*The lazy days of summer are anything but for Gene Kijowski, whose business operates 287 pools in the Washington, D.C., area.*

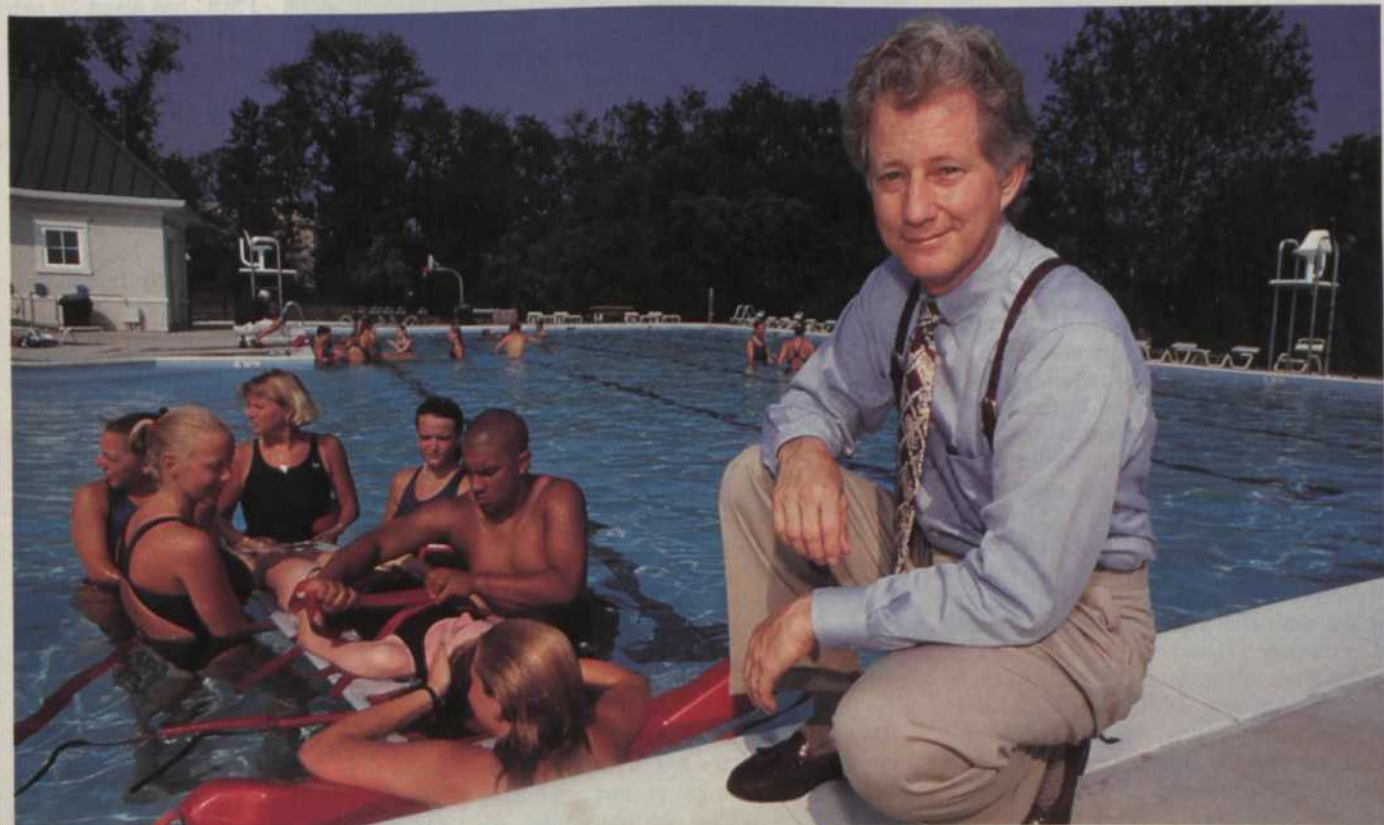


PHOTO: OREN TOUCHTON

## MAKING IT

vive," he says. "Our real success has taken place over the last six years when we recreated Century into a learning organization."

Pool safety had been paramount for Kijowski since he rescued a fellow lifeguard during his first season. Then it came into sharper focus. He began improving on the infrastructure he had created to provide training to his young workers, offering voluntary classes in CPR, safe handling of chemicals, and related topics.

"By far the biggest challenge of the pool-management business is conveying to young people aged 16 to 25 the seriousness of the job," he says. To underscore his point, Kijowski has brought in quadriplegics to talk to new hires. He sends observers

posing as guests to check out pools, and he gives pizzas to guards who get good ratings. Convinced that good communication and strong management presence are essential to safe pool operation, he plans to spend tens of thousands of dollars on cellular phones, pagers, and other devices.

To increase productivity, Kijowski and his partner, Hank Lavery, have invested about \$250,000 to automate Century's operating systems. This year they installed an automated call-in system that eliminates timecards for Century's 1,000 lifeguards. "The only reason we've prospered these last few years is we've really embraced change," says Kijowski.

Most important, he says, change must

include the company's leadership. "I understand now why so many companies fail. Leaders don't realize that they also have to evolve. It's not OK just to have the leader be [financially] successful. I can't expect my people to grow if I don't."

The philosophy has served him well. His pool companies have grown about 11 percent a year for the past five years and have a contract-renewal rate of about 85 percent. Together, they will generate revenues of \$7 million this year.

But it's not money that drives him. "I have always believed and still believe that if I personally—and we as a company—do the right thing, real success will continue to come." ■

## Prescriptions For Doctors

By Michael Barrier

When he was attending Union University in Jackson, Tenn., almost 30 years ago, James B. Davis thought he wanted to become a physician. Before he graduated, he changed his mind—and his major, to health-care administration.

Davis ultimately wound up as neither a doctor nor a hospital administrator, yet he is intimately involved with medicine. For the past 11 years, he has been the sole owner of Practice Management Information Corp. in Los Angeles. PMIC publishes books that tell doctors how to run their practices like businesses.

PMIC has grown to 45 employees and revenues of \$13 million a year—a reflection, Davis says, of how desperately doctors need the kind of help he provides. For every doctor who may be overcharging, Davis says, "I can find nine who aren't charging enough. They're very poor business people."

Business acumen has become ever more important to the medical profession in recent years because of the requirements of federal programs such as Medicare and the greatly increased attention to health costs under managed care. "A lot of the growth, and the need for the company, is tied to legislation," Davis says. "A lot of the things we sell are required by federal law."

Among those things are books of codes for every kind of medical procedure, updated annually by the American Medical Association; physicians must use those codes when filing claims with Medicare or health insurers. PMIC also publishes guides to physicians' fees so doctors can find out whether their charges are in line with customary charges for their specialty or geographic area. Much of this material

though the company enjoyed fast success, it wasn't long before "I was bored," Davis says. He started "fiddling" with desktop publishing and self-published 2,000 copies of a *Report on Medical Fees in Southern California*.

Within a few years, he had gone national and sales were in the millions.

Today, Davis says, PMIC has "really good penetration" among physicians and insurance companies. That market, though, is "finite," made up of about 475,000 potential buyers. PMIC has about 30 percent of the market, he says, and more than half for certain books, but there isn't much room for growth. "That's why we decided to move into the consumer health market." He has published three such books, under the Health Information Press imprint, with five more in the works on subjects such as how Medicare works and how to choose a doctor.

If Davis, who turns 50 in September, leaves PMIC, he likely will become just as involved in something else—probably Kid Care Los Angeles, a nonprofit organization he founded in 1994. The program, for which



PHOTO: GARY BARTHOLOMEW

**Publisher Jim Davis' Los Angeles company tells doctors how they can run their practices like businesses.**

is in the public domain; PMIC achieves its edge through packaging and presentation.

Davis was admissions director at Cedars-Sinai Medical Center in Los Angeles in the mid-1980s when he left to start a company that handled billing for physicians. Al-

PMIC provides much of the funding, supplies free lunches five days a week to hundreds of needy preschool children. Davis hopes to be feeding 1,000 children a day by sometime this year. He says of Kid Care: "I can see myself retiring into that." ■

# Enterprise With A Kick

By Carla Goodman

**T**wenty-eight years ago, Junki Yoshida came to the United States from Japan with \$500 in his pocket. Today his business, The Yoshida Group of Portland, Ore., has \$50 million in annual revenues. What's the secret of Yoshida's success? Karate, he insists.

"Karate teaches you to know your weakness so that others cannot take advantage, which is the key to survival, especially in business," says Yoshida, president of 10 diverse companies that employ 300 people. Among his firms are Molly Manufacturing (snowboards), Oregon International Airfreight, Endgames Entertainment (board games), and Chateau de Leu Winery in northern California. He is probably best known for his line of teriyaki, stir-fry, and steak sauces, marketed by Yoshida Food Products Co. to major grocery chains and discount outlets in the United States and abroad.

In 1982, Yoshida ventured into business quite by accident while working as a karate instructor at the Oregon State Police Academy in Portland. With no money to buy Christmas gifts for his students, Yoshida and his wife, Linda—whom he had met while studying English at a community college—cooked up batches of a marinade made from a secret Yoshida family recipe and bottled it to give as presents. When students asked for refills, Yoshida continued teaching during the day and spent his nights cooking and bottling his sauce in a kitchen in the academy's basement.

Yoshida's entrepreneurial rise was less than meteoric. Pledging his car and his life-insurance policy as collateral, he secured a \$10,000 bank loan. Yoshida produced up to 300 bottles of sauce a day, keeping them in the trunk of his car and selling them on speculation to local groceries. But when the bank learned that Yoshida was giving away a good portion of his product as free samples, it demanded immediate payment of the loan.

"I was a karate instructor. I didn't know

what a profit-and-loss statement was, so of course we were losing money like crazy. We had to start all over," recalls Yoshida, 47.

He raised \$150,000 in capital by selling the family's second car, cashing out Linda's life-insurance policy, and accepting money from his father-in-law, who liquidated his retirement assets. This time Yoshida kept a more vigilant eye on his fledgling business's bottom line.

"We had almost gone bankrupt, and I

marketing tactics later secured him shelf space in Safeway and Albertson's supermarkets as well as Wal-Mart and Sam's Club stores across the country. He expanded to produce a line of six sauces.

Yoshida allocated company profits to hire and train his own team of product demonstrators. There would be 30,000 demonstrations a month at Wal-Marts and Sam's Clubs alone, so it was critical that he maintain control over how his products were introduced.

"Some people call it sampling. I call it demonstrating your product. The big difference is the kind of passion you have for your product," says Yoshida, who trained his demonstrators to sell the virtues of

his no-fat, low-cholesterol sauces as they cooked, shared recipes, and offered samples.

His passion for his products was contagious. From 1988 to 1991, revenues from Yoshida Food Products Co. grew an average of 52 percent a year. "Our demonstrations were the foundation of our success," he says.

Another factor is his personal style. On colorful billboards throughout the Pacific Northwest, he has been featured at various times as a football player, a doctor, a caveman, and the Easter Bunny to sell his sauces. His favorite character is his "Samurai Cowboy," pictured on cases that display his half-gallon bottles in discount stores.

Since 1991, Yoshida has purchased an average of two businesses a year. His corporate goal is to own 25 businesses generating \$500 million annually. "It's not difficult to make \$20 million per company if you have the right people and the right product. We can do that," he says.

Yoshida, who still teaches karate once a week, says the martial art helped him develop a successful business attitude. "Karate taught me I could not fail," he says before reciting a portion of the *dojo kun*, or training pledge, that his students state before a lesson: "I will be humble and polite. I will strive to reach my limits. I will be patient and not discouraged." These are the same principles by which I run my business."

NB

Carla Goodman is a free-lance writer in Sacramento, Calif.



PHOTO: T. MICHAEL KEZA

**Passion for his products** helped propel Junki Yoshida's enterprises, including Yoshida Food Products Co., to \$50 million in annual revenues.

couldn't let that happen," he says. "I was responsible for my father-in-law's pension."

In 1983, Yoshida received his first big break when Costco (now Price/Costco, Inc.) agreed to stock his sauce in its first Seattle warehouse club. His flamboyant food demonstrations—sometimes he chased customers into a store parking lot to persuade them to buy—earned Yoshida a reputation as a showman who got results.

Sales of Yoshida's Original Gourmet Sauce grew rapidly, and it was introduced in other Costco stores. Yoshida's dramatic

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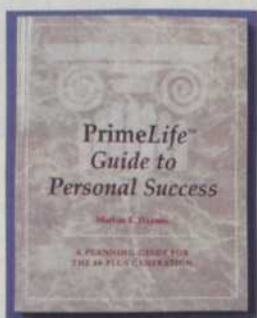
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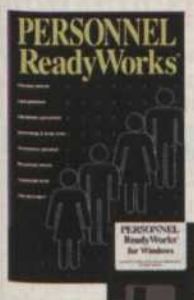
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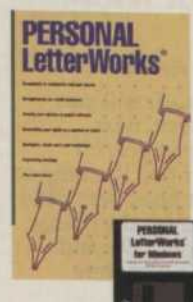
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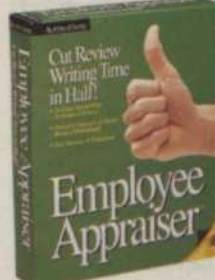
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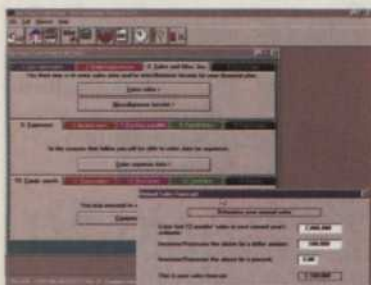
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<b>DOCUMENTS/COMPUTER SKILLS</b>				
	Consulting ReadyWorks DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows 3-1/2 <input type="checkbox"/> MAC	\$119.95	\$6.00	
	Legal LetterWorks DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows 3-1/2 <input type="checkbox"/> MAC	\$ 79.95	\$6.00	
	Personnel Readyworks DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows 3-1/2 <input type="checkbox"/> MAC	\$119.95	\$6.00	
	Sales LetterWorks DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows 3-1/2 <input type="checkbox"/> MAC	\$ 79.95	\$6.00	
	Business LetterWorks DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows 3-1/2 <input type="checkbox"/> MAC	\$ 79.95	\$6.00	
	Personal LetterWorks DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows 3-1/2 <input type="checkbox"/> MAC	\$ 79.95	\$6.00	
	Employee Manual Maker DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows 3-1/2 <input type="checkbox"/> MAC	\$ 99.00	\$6.00	
	Employee Appraiser (Windows 3-1/2 ONLY)	\$ 99.95	\$6.00	
<b>FINANCE/MARKETING</b>				
	PlanWrite for Marketing (Windows 3-1/2 ONLY)	\$ 99.00	\$6.00	
	Up Your Cash Flow DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows 3-1/2	\$139.00	\$6.00	
	Financing Sources Databank DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2	\$139.00	\$12.00	

QTY	NAME OF PRODUCT	UNIT PRICE	S/H COST	TOTAL PRICE
<b>FINANCE/MARKETING Continued...</b>				
	Loan Builder DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows 3-1/2 <input type="checkbox"/> MAC	\$ 99.00	\$6.00	
	Publicity Builder DOS <input type="checkbox"/> 5-1/4 <input type="checkbox"/> 3-1/2 <input type="checkbox"/> Windows 3-1/2 <input type="checkbox"/> MAC	\$ 99.00	\$6.00	
	Relocatable Business	\$120.00	\$6.00	
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# Free-Spirited Enterprise

By Michael Barrier

## Four For The Road

The summer travel season is winding down now, but seeing all those cars on the highway has made us think about a variety of products designed to make travel a little more pleasant. On the assumption that you may still venture out of your lair occasionally after Labor Day, we'll tell you about some of them:

### Conversation Cards

These aren't billed as a travel item; we'll explain why they strike us that way in a minute. The cards, made by a small St. Louis company called TableTalk, come 52 to a pack, and the idea is that they'll encourage people to start talking to each other. Each card states a fact, using that fact as the springboard for a question. There is no right or wrong answer to the question—it's just supposed to get you talking. Here's an example, from the pack called "TableTalk":

"The extinction of the dinosaurs is an unsolved question. Atlantis was a legendary island in the Atlantic Ocean said to have sunk beneath the sea. Scientists cannot explain why whales sometimes beach themselves in large groups. If you could solve any mystery, what mystery would you solve and why?"

Other packs have themes—science, art, music, movies,

the Bible, sports—and one is called "KidTalk." There's the travel connection; not just "KidTalk" but a lot of the other card sets seem made to order for kids. We find it a little hard to imagine reaching for a conversation card when there's a lull over dinner with friends at a nice restaurant, but what about when you have a couple of grade-schoolers in the back seat on a long trip? Few kids could resist a lure like this one:

"April 25 was a holiday in ancient Rome. It was a feast day set aside to honor Robigus, the god of mildew. If you could create a new holiday, whom or what would it honor?"

Before you know it, the kids have settled on a holiday to honor Beanie Babies, a few hundred miles have rolled by, and you're at grandma's house.

TableTalk recently put out some more sets specifically for children, these under the head-

ing "Careers for Kids"; they're intended to get children thinking about the careers that might best suit them. The first four sets are on art, music, technology, and sports.

To learn about stores where you can buy TableTalk's cards or to order them directly from the company, call 1-800-997-5676. The

prices are \$5.95 per pack for the conversation cards and \$6.95 per pack for the career cards, plus postage and handling.



### Ventsations

A Sioux Falls, S.D., company called Dakota Products has come up with a twist on the familiar air fresheners—you know, the cardboard pine trees you see hanging from rear-view mirrors. Dakota's fresheners are a little more discreet; they're plastic clips that you can attach to the air vents on your dashboard.

The company says that its Ventsations Scent Clips are "impregnated with a pure fragrance oil," and after trying an "apple spice" clip, we believe it. Such an aggressively camouflaging scent may be just what you want, particularly if you're a heavy smoker.

The Ventsations clips are widely available at discount stores.



### Airport Transit Guide

The 16th annual edition of *Salk International's Airport Transit Guide* has been out for a while, but it would be a shame not to mention it, since it's a nifty publication. For 432 airports around the world, it gives you detailed information about how to get from the airport to the city center.

We checked the guide against some airports we're familiar with, and we were impressed by its thoroughness and accuracy. You can order individual copies for \$8.95 by calling 1-800-962-4943. You can also get copies imprinted with, say, your company's logo (50-copy minimum). The 1998 edition will be out late this fall.

### Kwikpoint

If you've traveled overseas, you've probably had the experience: You desperately need to communicate with someone—to find a doctor or a restroom or something else equally urgent—but language is an insuperable barrier.

GAIA Communications has an answer: the Kwikpoint International Translator, a folded, laminated sheet that you can carry with you. It is covered with 600 pictures and symbols—for food, police, phone, taxi, and so on—that you can point to when you want to express your need to someone who doesn't speak English. To order, send a check for \$6 to GAIA Communications, Inc., P.O. Box 238, Alexandria, Va. 22313-0238. NB

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# Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Stephen Blakely

## PROMOTION

### Plans For Celebrating A Company Birthday

We are a family-owned wholesale business, and this year we'll mark our 90th anniversary. We are looking for ideas or literature on how to plan for and promote this milestone. S.C., Lancaster, Pa.

You can start with the Public Relations Society of America (PRSA) in New York City. Assistants at its information clearinghouse, the Professional Practice Center (212-460-1459), can direct you to a public-relations firm in your area, either by telephone referral or by sending you a free copy of the organization's "red book" of member firms and consultants around the country.

The PRSA, the nation's largest association of public-relations professionals, has more



ILLUSTRATIONS: MARTHA VAUGHAN

than 17,000 members. For a \$15 fee for nonmembers, the PRSA will search its PR Works database to produce two-page profiles of similar events held by other compa-

nies. The summaries provide useful information about promotional campaigns that were tried, when they were conducted, their cost, and whether they worked.

Be sure to specify that your event is a corporate anniversary and describe the nature of your business and the type of customers you serve.

For possible solutions closer to home, contact other local business owners to find out what anniversary or special-event projects they have tried. Watch for similar promotional efforts that catch your attention. Check with a nearby college or university to see if the business or advertising departments offer free resources. And local print, radio, and television

outlets are sure to have some suggestions for ways you can fashion a paid message, depending on how much you're willing to spend.

## GETTING STARTED

### Funding For Minority Firms

I want to start a business that would train people to use software. I have a very strong business plan, and potential clients are waiting for me to open my doors. Where can I find funding? Are there options geared toward minority-owned companies? E.S., Dover, N.H.

In the private sector, the National Bankers Association in Washington, D.C., represents minority-owned banks that target loans to minority-owned businesses. For the nearest member bank in your area, call the association at (202) 588-5432.

Most states have an agency that provides one-stop assistance on financial programs and services for small businesses. Check the library or the phone book for your state's office of small-business support.

On the federal level, district offices of the U.S. Small Business Administration (SBA) can direct callers to local organizations that provide various services and loan programs for small businesses; call 1-800-827-

5722 to find the district office nearest you.

The U.S. Commerce Department's Minority Business Development Agency funds Business Development Centers nationwide to help minority-owned start-up businesses; call (202) 482-1015 for more information.

In addition, all major federal agencies have an Office of Small and Disadvantaged Business Utilization. These offices help funnel a share of federal contracts and subcontracts to capable businesses that are small, disadvantaged, or both.

A well-developed business plan is essential for finding capital. Most banks require such a plan before making most types of loans, and the SBA will not guarantee long-term loans without a plan. (For more on the importance of business plans in obtaining capital, see "One Giant Step Toward A Loan," on Page 34 of the August issue.)

### Tutoring Tips

I'm an environmental engineer with a graduate degree and a lot of skill in mathematics and science. I would like to start a side business as a tutor in math and sci-

ence. Where can I get information on starting this business and on appropriate teaching materials?

L.C., Malverne, N.Y.

Try the National Tutoring Association, based at East Stroudsburg State University in Pennsylvania; 1-800-621-2930. Membership is \$25 a year. In addition, there are separate professional groups for math and science teachers, though neither provides support or programs designed specifically for tutors.

## HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Or transmit your question to our CompuServe address: 76436,1735. Be sure to include your address and telephone number.

Because of the high volume of letters, we can answer only those that are chosen for publication. Questions may be condensed, and writers will be identified only by initials and city.

## INSURANCE

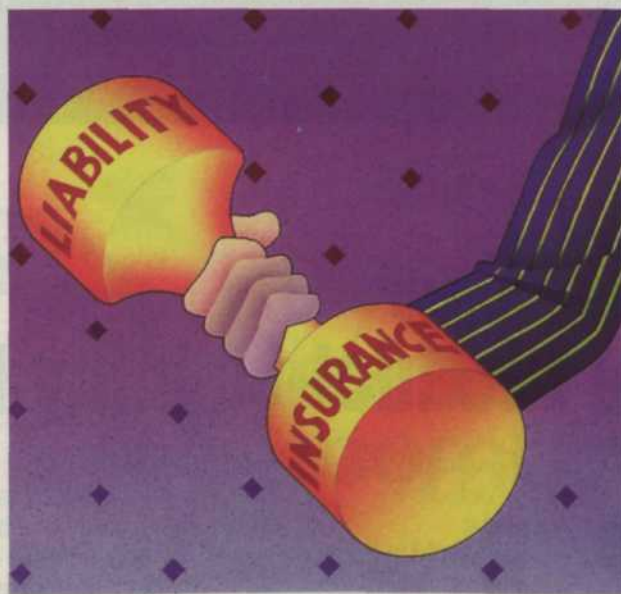
## Getting A Handle On Liability Coverage

I manufacture and market a small exercise device that sells for under \$50. I have a contract for several hundred of the devices, but the contract requires me to have product-liability insurance for up to \$1 million, and I can't afford the premium. This product couldn't cause an injury unless someone used it as a club. Where can I go for help?

*L.S., Mequon, Wis.*

Perhaps the best way to shop for product-liability insurance is to seek out specialty insurers that deal exclusively in such coverage. A general insurance agent should be able to help you locate a specialty carrier in the product-liability sector. Madelyn Flannagan, consumer-affairs advocate for the Independent Insurance Agents of America (1-800-221-7917), based in Alexandria, Va., recommends that you first contact the agent for your homeowner's insurance.

Flannagan notes that if your device is patented, the insurance premium likely



would be lower than it would be otherwise because a patent indicates the product has been "tried and tested." She says you also might be able to spread the cost by finding a partner, such as another manufacturer.

"Product-liability insurance is expensive, especially if [the product] has the potential to cause bodily injury—that's the

standard," Flannagan says.

Keep in mind that you could pass along to customers the cost of insurance by raising the price of the product, although competition and customer reaction may make that option unappealing.

To determine which companies sell product-liability insurance in your state, contact your state insurance commissioner's office.

Also, you can visit the U.S. Small Business Administration's computer "chat room" on the Internet at [www.sbaonline.sba.gov](http://www.sbaonline.sba.gov) to ask other small-business owners around the nation how they handled this type of problem. Be aware, however, that this is merely a networking tool for small businesses; the SBA has no product-liability-insurance programs that could help you directly.

The business community has been working for years on legislation to rein in the skyrocketing legal and insurance costs associated with product-liability lawsuits. Congress passed a product-liability bill last year, but President Clinton vetoed the measure at the urging of consumer groups and trial lawyers.

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# Editorial

## Reasonable Product-Liability Reform

It has long been apparent that the legal procedures established to compensate individuals injured by defective products are badly flawed. Among the defects:

- While 70 percent of the products made and sold in this country cross state lines, each of the 50 states has its own product-liability law, which adds substantially to the complexity and cost of business defenses against personal-injury lawsuits.

- Product-liability laws of many states lack guidelines for assessing punitive damages, which are added to compensatory damages covering economic costs such as lost wages and medical expenses resulting from an injury.

- In 30 states, a business that sells a product containing defects of which it is not aware can be held liable for damages if people are harmed by that product.

- A company bearing only 1 percent responsibility for an injury can be forced to pay virtually all of an award for damages.

- Eleven states permit liability suits by people who were under the influence of alcohol or illegal drugs when they used the products allegedly responsible for their injuries.

- In some states, the gross misuse or alteration of a product does not preclude suits for damages related to that product.

- Fear of liability lawsuits has caused manufacturers to withhold from the market a wide range of products that could make important contributions to the health, safety, and convenience of the American people.

The total cost of the current tort liability system, which covers all types of personal-injury claims, is an estimated \$150 billion a year, which represents resources that could otherwise be put into developing new products, creating jobs, and improving U.S. competitiveness in global markets.

Business has been trying for nearly 20 years to bring order and fairness to the laws for resolving product-liability

claims. Legislation to that end cleared Congress last year for the first time, but President Clinton vetoed it on the ground that it did not address consumer interests adequately. He said he would support "reasonable" legislation.

Product-liability-reform legislation is again pending in

Congress. The measure was drawn up to meet many of the objections the president stated in his veto and to offer room for compromise on others.

These are among the key provisions of the measure:

- A federal liability law would replace the complex and frequently conflicting patchwork of 51 individual arrangements in the states and Washington, D.C.

- Product sellers would be liable only for their own negligence or failure to comply with an express warranty.

- The influence of alcohol or illegal drugs and the misuse or alteration of a product would be factors in determining liability.

- Punitive damages could be awarded if "clear and convincing evidence" proves that harm was caused by a defendant's "conscious, flagrant indifference to the safety of others." Such damages would be limited to two times compensatory damages or \$250,000, whichever is greater.

- Defendants would be liable for noneconomic damages only in direct proportion to each defendant's responsibility for the claimant's harm.

Product-liability reform enjoys bipartisan support in Congress. The pending legislation surely qualifies as the "reasonable" approach that the president has pledged to support.

There is no reason why he should continue to stand in the way of changes to a system that supposedly benefits victims of product-related injuries but is itself the cause of serious injury to the economy, to U.S. competitiveness abroad, to the consuming public, and to the sense of fairness on which the nation prides itself.

### Product-Liability Awards

Jury awards for compensatory damages in product-liability cases. The amount for each year is the median figure. Half of the awards were higher, half were lower.



SOURCE: 1997 CURRENT AWARD TRENDS IN PERSONAL INJURY, A REPORT BY JURY VERDICT RESEARCH, HORSHAM, PA.



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